



Challenge

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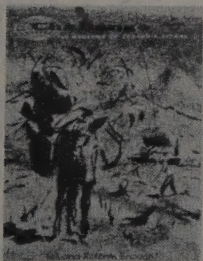
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Articles

Human Economic Experience	6
HAIG BABIAN	
M Day	12
MAX FORESTER	
Is Land Reform Enough?	16
HERBERT K. FERGUSON	
A New Face for Retailing	21
PERRY MEYERS	
How Shockproof Is Our Economy?.....	24
ROBERT P. ULIN	
They Decentralize for Growth	29
IRWIN M. STELZER	
Leisure: The Economic Aftermath	42
DAVID M. POTTER	
Who Makes What?	47
MARION L. BRIGGS	
Economic Frontiers in 2000 A.D.	52
GEORGE R. PRICE	
Bargaining, Industry-wide	60
ROBERT E. SIBSON	

Interview

Arno H. Johnson	34
VICE PRESIDENT AND DIRECTOR OF RESEARCH J. WALTER THOMPSON COMPANY	

Departments

A Personal Note	2
Challenge Notes	4
You May Want to Know	40
Economics in Action	51
Man and the Economy · No. IX	56
Challenge Quiz	63
Dept. of Better Mousetraps	64

a personal note

from the editor

*Christmas spirit
and spirited savings*

THE USUALLY CAUTIOUS retail merchants of the land have thrown all discretion to the winds. They have come right out and boldly announced that come this Christmas Eve, they will have stashed away the biggest haul ever collected in the history of holiday selling. In short, the retailers expect to do a terrific business, and they have responded to this prospect in superlative, spectacular fashion—so spectacular that to term it extraordinary would be a puny description. Store decorations seem to be more decorative, the window displays more opulent, lights more dazzling and the wares more attractive—downright irresistible—than in former prosperous years. The human props which the big stores label “Santa Claus” look well fed, very jovial, and seem to have added to their general interest in children something which borders on a floorwalker’s penchant for catching the eye of adults. All this is good. Very good for business indeed, and the retailers know it. Just look at the gleam in Santa’s eye as the little girl takes the doll in her arms. Or is that a look of glee as the cash register rings \$19.95?

Little matter. Christmas is here, and there is joy in people’s hearts. Men and women, boys and girls, are expected to buy up during the Christmas rush 50 per cent of all toys and games to be sold in 1955; 20 per cent of all radios and TV sets; 25 per cent of silverware; 35 per cent of handkerchiefs; and so forth. More money will be spent to make this Christmas a merry one than during any previous Christmas season in our history. Undoubtedly, many people will find joy in the process. Certainly the retailers are happy.

The happy proceedings may be marred by some sour notes, however. There are always some who like to point out, if they can be heard over the whoop-de-do and hoopla of Christmas sales, that it would be well to keep in mind the origin of the practice of offering gifts. There is an idea connected with it, one so far more important than achieving another sales record that one cannot even attempt to draw a comparison without feeling sullied and unworthy of the human race.

One fact has come to light, as a result of the seasonal rush to buy

and to sell, which is worthy of further investigation. It seems that people are capable of all sorts of things—even saving money—whenver they are moved enough to want to make a good showing. For example, two million people this year joined Christmas Clubs to assure themselves a respectable sum with which to do their holiday shopping. Their foresight was rewarded when in mid-November two hundred million dollars was mailed to Club members throughout the country—a nice chunk of money, most of which will undoubtedly go for the purpose for which it was set aside. Two things about this development have caught our eye: (1) the amount involved, and (2) the strong incentive which led people to save money for Christmas.

This year's Christmas Club receipts accounted for more than one per cent of our current annual rate of savings for all purposes. Now, one per cent doesn't sound like much. But when you consider the number and amount of insurance premiums that were paid this year, the stocks and bonds bought, the houses purchased on mortgage, the automobiles and appliances purchased on time, and all the other forms of savings that made up this year's economic activity, you realize that one per cent of all this, just for Christmas presents, connotes a bigger accomplishment than the figure "one" itself ordinarily suggests.

Naturally, we should not be oblivious to the fact that only an economy of relative plenty can make it possible for people to support such special-purpose savings institutions as the Christmas Clubs represent. But even more important is this matter of incentive. People *can* save, from their own resources, a sum sufficient to serve any special occasion or need that they make up their minds is worthy of special attention. There *is* enough personal income to leave room for the satisfaction of heightened "luxury" desires. We are reaching a stage of economic development where large numbers of our people can save, if they want to save, to prepare themselves for expenditures which they are especially anxious to be able to make.

This, from our point of view, is a major accomplishment for an economic system. It is major because it frees human beings from a monotonous existence. One can splurge from time to time. Or one can hope to find security in old age; travel to far-off lands; send one's children to that dreamed-of college.

The Christmas Clubs have contributed to the holiday cheer of retailers at year-end. But more important, they have showed people how to think ahead for the things they want most. There will be more Clubs like them.—H.B.



Challenge Notes

Changes in the nation's occupational structure; music, cheese and service; getting rid of a subsidy

MOST OF US, when we think of our industrial economy, conjure up images of giant girders, whirring motors, smokestacks, and other material symbols of a phenomenally productive economy.

Well, the government's Bureau of Labor Statistics has just come out with some figures which, at first glance, seem to upset this image. At a time when our factories and farms are pouring out more goods than ever before, *fewer* people are employed in production (manufacturing, agriculture, construction and mining) than in service industries (trade, transportation, utilities, finance, government service, etc.). Judging from current employment trends, moreover, this shift in the nation's occupational structure is permanent. Today, the fastest growing occupation is selling, with clerical jobs coming second and the professions third—all service occupations.

What the full impact of this shift will be not even the experts know. But one conclusion stands out. The ability of the American economy to produce more goods with a proportionately smaller labor force has made it possible for less than 50 per cent of the total number of employed to provide a rapidly rising population with a standard of living that is the envy of the world.

This is a truly remarkable achievement. Without it, we could never *afford* to have a majority of our workers engaged in services. Even more important, we would not *need* many of the "services" people are currently employed in. If agricultural productivity had not increased by more than 500 per cent during the last eighty-five years, for example, there would not have been the need to develop such new services as homogenization, refrigeration, packaging—or to expand such old services as selling,

transportation, food chemistry, etc. It is productivity which, in the final analysis, creates both the income and the need for new services.

Music, Cheese and Service

THIS business of "serving" the consumer can lead to rather bizarre results. Only the other day we spotted a package of cottage cheese designed to attract music lovers as well as cheese lovers. The cover of the package was a phonograph recording of two popular songs.

Are the people who originated this gimmick engaged in a service occupation? Obviously, they are—as long as the consumer goes along. When and if he tires of music in his cheese, however, this service ends. As Mr. Arno H. Johnson points out (*see page 34*), no advertiser can force the consumer to buy what he doesn't want. Advertising can "educate" him to new wants, but by the same token the consumer can educate business to a better awareness of what his true wants are—an education that can prove quite expensive.

The fact of the matter is that such service occupations as merchandising are in response to very real needs. As our purchasing power increases, there is a qualitative as well as a quantitative

change in our standards of living. Convenience, comfort and novelty become increasingly important. More and more, "it's the service that counts."

Getting Rid of a Subsidy

HOW DOES one get rid of a subsidy? A recent report on tariffs by the National Planning Association illustrates some of the difficulties involved.

Insofar as a tariff penalizes a foreign producer, it, in effect, subsidizes the domestic producer. As believers in the free-enterprise system, most of us do not like these subsidies. On the other hand, it is true that many manufacturers (and their employees) will be hurt if they are deprived of their tariff crutch. How to get rid of the crutch with a minimum of pain certainly is a genuine problem.

The NPA report suggests that the best way to do this is to accompany tariff reductions with federal aid to those industries adversely affected. But is this not merely the substitution of a direct for an indirect subsidy—one that hurts the public both as consumers *and* as taxpayers.

The only way to get rid of crutches is to try slowly (and painfully) to do without them. A new and different pair will not do the trick.—M. K.

Human Economic

by Haig Babian

Experience

—a continuation of "What Do Americans Think of Capitalism?"

THIS SERIES of articles has reiterated the view that a good measure of economic literacy is a necessary condition for the well-being of that public body known as "an informed citizenry." We have also accepted the general principle that business education programs can play a useful role in engendering a greater degree of public sophistication about economic processes and trends, even though such efforts tend to concentrate on explaining business methods, needs and accomplishments only.

The adverse criticism we have leveled against the economic education programs of business is not the inspiration of this writer's subjective license. Large segments of management have also pointed out the ineffectiveness of business efforts, not only on behalf of explaining how our economy works, but on behalf of explaining the constructive role of

the businessman himself in our economic society, as well. We merely regret, along with many others, that the educational methods of business, financially so well supported, are at the same time so ineffective.

In previous articles we have advanced the idea that there are four areas of human experience which condition the public's response to attempts by businessmen to explain economic phenomena in business terms. We examined the first of these four areas last month.

We spoke of how the working world appears to most people to be divided into two camps—one of employers and another of employees—and how this concept of division is so traditional in the public experience that it is difficult for management to get its ideas accepted, as a nonpartisan contribution, among employees and their families.

In this, the last article of the series, we shall examine the second, third and fourth areas of human economic experience with which management must cope.

Area II: Talking the Same Language. The biggest problem a communicator, or educator, faces is the one of keeping psychologically in touch with the people to whom or about whom he is supposed to communicate. The business communicator who seeks to talk to employees in the plant and to the public outside the plant—a public made up largely of individuals who are also employees—has special problems. By virtue of his being a member of the management team, he considers himself, or is considered to be, not of the ordinary employee caste. He represents the business institution.

Therefore, the business educator ceases to be an individual. His thoughts and his words are those of an institution. He begins to measure progress over the span of decades. He demonstrates the increase in the annual wage average by pointing to the advances during the past generation. He is glib about how his company is gambling on the future of the economy by pouring millions into expansion and modernization of plant and equipment. All this is good and serves some purpose.

But let an employee of the company ask the business educator why in tarnation (in this dynamic economy of ours) he cannot afford to pay his rent, his doctor bills and at the same time take the family out to dinner once a month on his present salary—when this happens, the business educator cannot provide a convincing answer. There aren't any institutional answers which can cope with such personal, individual problems. The language of business is just not the language of the employee.

Management is very much aware of the existence of this problem and has leaned over backwards—an unnatural position—to cope with it. Unfortunately, such attempts to overcome a substantive disadvantage for management have involved procedural failings. Oversimplifications of economic phenomena, fatuous comic books, slogans, and even unbecoming attempts to appear to be "one of the boys" have all been used as pedagogic techniques. Thus, while the bread-and-butter economic story has been told over and over again, the story of business and of the economic system which provide the bread and butter has been sacrificed.

Suppose a business educator wants to talk about productivity. Fully realizing that the worker

is bound to be interested in what makes higher wages possible, he proceeds to prepare his material with the proper slant on higher wages. Is this enough? It is not. The worker will be touched by the prospect of his getting an increase in pay, but he will not extend himself to understand the economic factors that lead to greater productivity.

BUT SUPPOSE the productivity story were to be tied in with the fact that recent wage increases had been instituted? Even if the raise in pay had come after a strike, such handling of the productivity story would not be disqualified. Management and labor might disagree about the *size* of an increase in pay, but the only way *any increase* is possible—without killing the goose that lays the golden egg—is by raising productivity. Thus, management is justified in worrying about too high an increase, which might preclude its ability to provide for future rises in productivity—and wages.

Now, what would such a mis-sive from management to employees accomplish? It refers to a dispute over wages, but the reference is a constructive one, for it explains the *logic* of management's stand. It offers an opportunity to delve into the abstractions of what makes produc-

tivity possible. It speaks of a newly won raise, still fresh in memory, and refers to future raises, to which every worker looks forward. The employee will read such a message. He may conclude that it *sounds* like more company propaganda, but he won't be able to put his finger on any one point and say, "this part here is not true." Every time he reads about productivity from then on, he is bound to wrestle with the ideas that first were put into his head by management. Eventually, he may come to accept the ideas. Management will have educated him, not "sold" him, on the function of profits, investments and productivity.

Area III: The Role of Government. One of the most consistent arguments of the business community has been that government should stay out of business. This author could not agree more with such sentiments. Unfortunately, an examination of how businessmen act will disclose that government interference is actually welcomed in many and varied businesses, such as farming, shipping, air transportation, watch manufacturing, oil and so forth and so on. Through subsidies, tariffs and special depreciation allowances businessmen have been willing to let government get into business. Now, there may be some very special reasons why exceptions

should be made. But the exceptions constitute such a large part of our business economy that it becomes ridiculous for businessmen to keep harping on the line that government should stay out of business.

What happens to the businessman's much-vaunted arguments on behalf of the blessings of competition? And what are people to think of those businessmen who claim that free enterprise has worked wonders for the country—wonders that can be multiplied as long as *the government sees to it that we do not have another depression!* The common man is confused by the double talk. Soon he doesn't trust what the businessman has to say about any aspect of the economy. If government can guarantee the survival of certain businesses, why can't it guarantee the wages of workers?

CAN THIS appearance of intellectual underdevelopment, if not dishonesty, on the part of businessmen be repaired? Perhaps the only thing businessmen can do is to try to reevaluate their own thoughts on the role of government in the economy. The impact of federal fiscal policy and monetary controls is here to stay. More economic realism might be demanded of government, but the structure of governmental in-

fluence cannot be overturned. Government has an important role to play in the economy, and the sooner businessmen explain this role, the better off we shall be. After all, as citizens we get only the kind of government we deserve.

There has been so much screaming from business quarters about government debt that there has hardly been time to explain to the reading and listening public that debt plays an important function in the expansion of the economy. It is not debt that is bad, but the way it is incurred and the purpose for which it is used. Government can use debt constructively, just as businessmen do. But the public will never know the difference, if business education programs do not help to explain when debt is good and when it is bad. Businessmen ought to be more discriminating about their arguments against debt, as they ought to be about the role of government in business and the economy.

Basically, the big concern of any student of government is that government, as it becomes involved in our economic processes, may eventually lumber into an infringement of individual liberties. Concern on this score is well-founded. Therefore, we must be alert to this tendency of a bureaucracy. How to remain

vigilant against the tendency and at the same time measure the merit of special situations is the task that economic educators, business-inspired and otherwise, have before them. No pat anti-government argument will make sense. To the extent that businessmen confuse and breed distrust with their stock arguments against government, they are rendering a public disservice. Businessmen themselves are involved in too many exceptional situations which require governmental interference. If the exception is the rule, let us define the rule. If the exceptions set up dangerous traditions, let businessmen say so, and at the same time practice what they preach. The best teacher is the man who teaches by example.

Area IV: Economic Security. Like it or not, the individual today has come to have a healthy respect for a certain degree of economic security. He wants security against unemployment and a measure of security in his old age. Now, there is no telling where this will lead us. It is even possible that we shall sacrifice the golden touch of initiative at the altar of security. Then we won't have the substance of security, or anything else, for that matter. Presumably, this is exactly what many businessmen are pointing out to us when they

argue that the institutionalization of security patterns will lead us to eventual disaster.

The trouble with this approach is that businessmen have put themselves in a position of being *against* something which the majority of our people are *for*. It is a waste of time to point out that security is not a right but a situation that comes into being only when it is possible. The desirability of being accorded economic security is too well entrenched *in principle* for that. All arguments businessmen attempt to advance against a security-oriented society will appear to be an attack on the achievement of security itself. This does not endear the businessman to the public. Therefore, he must rephrase his arguments so that he appears to be *for* something instead of merely *against*.

Now, what elements of security can the businessman be *for* without contributing to a possible stagnation of initiative and a stalemate in our rate of progress? This calls for a review of what individuals *think* leads to security.

People want jobs. They want wages that will make it possible for them to acquire those things the advertising agencies say they should have. They want to improve their standards of living

according to the pace that the statistics say standards are improving. They want to have enough left over so that in their old age they can live on their own resources. These are the obvious desires. Businessmen should be willing to talk about these desires, to cite them by chapter and verse and discuss how they can be best attained through our present structure of society.

When businessmen speak of their plans to expand, to produce, to hire, to pay, to sell—to keep rolling—they should add for what purpose their activities are being conducted. The purpose is to raise your wages from \$72.80 per week to \$105.00 per week by 1965, in 1955 dollars. In order to do this, we must do thus and such. We propose this course of action so that there will be enough in your income for savings toward old age plans, and so on.

THIS approach holds up the prospect of security as well as explains the shape of its substance. It demonstrates to people, in bread-and-butter terms, that businessmen are in business, not for its own sake, but to help provide the dollars and the sense of a kind of a life worth working hard for. Let every worker be his own judge of what is possible in the way of security on his job. Let the union argue that its inter-

pretation of the figures does not jibe with the company's. There is no harm in such a give-and-take. In the last analysis, the argument is on procedural matters, not substantive ones. The big question will not be *what* is security, but *how* it can be attained.

THE target of social progress that businessmen are shooting at may not be hit, but it won't be missed because businessmen failed to do their part, or because they didn't know what they set out to do. Under such circumstances, it will be difficult for the public to blame businessmen for everything that goes wrong with the economy. Businessmen want social security. They know how to get it. They have defined its dimensions and have set out to achieve it.

What we are suggesting here is that the business community rise to heights of economic leadership that may appear to some to be very formidable. That may be. But if businessmen expect people to listen to them, they must display the self-confidence that merits the public attention and respect they desire. The increasing effectiveness of business education programs of the future will be a measure of how well businessmen are fulfilling the role to which they aspire. ■



When an industry relocates, who gains, who loses and what is the net effect?

WHEN A recent American Federation of Labor report focused attention on communities which are suffering from an exodus of certain locally identified industries, it cast a spotlight on one of the nation's more vexing economic problems. For in some instances the movement of plants, largely from the Northeast to the South and West, has left in its wake social upheaval and unemployment—particularly in New England, where plant relocation was an important factor contributing to the loss of 129,000 textile jobs between 1947 and 1955.

Clearly, the life of an entire community may be at stake when a manufacturer, after generations in one town, decides that he will have to relocate in order to safe-

guard or increase his earnings.

When such a decision stems from the acceptance of "bait" dangled by a southern city, let us say, which offers municipally built plants, lower taxes and lower wage rates (in addition to proximity of markets and other advantages), leaders of the affected community are often incensed. Such attempts to lure away business are unjust, they claim.

A number of Congressmen led by Senator John F. Kennedy (D.—Mass.), have even declared that the government should label as "unfair competition" some of the giveaway practices of industry-hungry cities.

Are these charges justified? The answer to this question depends on the answers to a number of other questions, namely: what

part does plant relocation play in the general pattern of industrial migration? Why do plants seek to relocate? Can the adversely affected communities take preventive measures and, if not, how can they mitigate the harmful effects of plant shutdowns? Do regional disparities in wages, taxes, freight rates and other business costs tend, over the long run, to equalize? What is the net effect of plant relocation on the entire economy?

First of all, it must be understood that the transfer of existing plants from one region to another is but a small part of the shifting pattern of industrial locations. The larger part is characterized by the establishment of new industries or by the construction of additional plants away from the home site.

The dearth of statistics makes it difficult to measure the effects of plant relocations on the current trend of industrial migration. However, clues are to be found in the figures relating to *over-all* shifts in employment and industrial capacity. For example, the national total of nonfarm workers rose by 63.3 per cent from 1939 to 1953. The rise in the southern regions varied from 70.6 per cent for the South Atlantic states

to 91.2 per cent for the Southwestern states. On the other hand, the gain in New England was limited to 37.4 per cent.

This difference in the rate of growth is strikingly illustrated by what has happened in textiles. A generation ago 80 per cent of American cotton and rayon mills was located in New England; today 80 per cent of these mills is below the Mason-Dixon line.

While it is clear that during and since World War II the South and West have made relatively spectacular gains in industrial growth, the development of the economy has been so rapid during the past fifteen years that no region has remained static. The absolute gains in industrial strength made in the traditional industrial centers of the country should not be overlooked.

HAVING indicated to some extent the role of plant relocation in the changing industrial complex, let us examine the reasons why managements decide to move centers of operation from one location to another.

Some of the major considerations are these: the desire to be closer to growing consumer markets, the availability of raw materials, the type and cost of the labor supply, cheaper transportation rates, lower taxes and better employee living conditions. More

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recently, security factors have been important in determining the location of new business sites.

Take the case of a leading rug manufacturing firm that in 1953 shut down its eighty-year-old plant in Yonkers, N. Y. and moved to a town-built factory in Greenville, Miss. The company saved \$170,000 a year in municipal taxes and up to fifty cents an hour on average employee wages. In addition, the absence of organized labor permitted management to set higher work quotas than would otherwise have been possible.

Actually, the importance of wage differentials as a factor in selecting new plant locations has been declining. Minimum wage laws and the effects of increasing unionization have tended to equalize rates throughout the country. All major southern auto and steel plants, for example, are now organized.

The differential in tax rates among states also appears to be narrowing for as undeveloped areas become industrialized, the costs for roads, schools, sanitation, etc., rise and necessitate increased taxes.

Therefore, some of the cost disparities will balance out over the long run. There still remains, however, the problem of coping with the *immediate* difficulties that crop up when a plant moves

away from a community with which it has been identified for some time.

Of course, sometimes plant relocation is blamed for a whole complex of economic ills. Even in New England, the area hit hardest by plant transfers, the 45 per cent drop in textile employment from 1947 to 1954 was caused largely by such long-range factors as increased imports, decreased exports and technological changes. Nevertheless, that the problems caused by plant relocation can be of major proportions is indicated by a 1952 Massachusetts state report that showed what can happen when a plant relocates. The report revealed that only 65 per cent of the workers stranded by a shut-down plant had found re-employment during the following eighteen months. Twenty per cent were still unemployed, and 15 per cent were no longer in the labor force. One-third of those employed were still attached to the textile industry—although they had to move or commute to other textile communities—and the new jobs involved general downgrading of skills. Many of the older workers who preferred to remain in their home community were forced to accept such unskilled, nonmanufacturing jobs as janitors, porters and hospital attendants.

A number of measures designed

to prevent such hardships have been recommended. Louis Hollander, president of the New York State C.I.O. has called for a rise in the Federal minimum wage to \$1.25 an hour from the \$1.00 which will be the new minimum as of March 1, 1956. He has also requested Federal standards for unemployment insurance and workers' compensation so that lower state taxes should not be a factor in luring away industry.

The A.F.L. has called for state tax favors and special loans for hard-pressed concerns that otherwise might be inclined to move to lower-cost areas. In other words, they have advocated the same measures as those employed by the southern states in their efforts to attract industry.

Others have demanded the kind of community action taken by Connecticut state agencies when they managed to find jobs—within ten weeks of a Rockville mill shutdown—for 437 out of 600 workers left unemployed. In addition, many civic leaders in areas afflicted by plant transfers have urged greater state and local incentives to attract new plant investment to take up the labor surplus.

If a company must move, there are steps that management can take to lighten the blow on the community. First, it can give ample notice so that employees have time to make other arrangements. Then, it can cooperate with civic groups to help find new jobs for its workers. And, in some cases, management may find it desirable to pay moving expenses for employees to encourage them to travel with the firm. This has been done by such companies as Nestle's and American Safety Razor Corp.

All things considered, the popular notion that plant relocation, *per se*, is bad should be discarded. Short-term hardship effects can be mitigated by the combined action of labor, management, community and government. In the long run, industry shifts will bring about an equalization of many of the cost differentials that now encourage plant relocation.

Certainly, from the point of view of the national economy, plant mobility is essential, not only to facilitate continuous adjustment to changing economic demands, but also to allow industry to utilize its investment for maximum productivity. ■



Advantages of Age

THERE ARE many compensations to growing old. For example, if you are over 70 you can get a free fishing license in New York. And in Iran, men over 60 are exempt from capital punishment.

Is Land Reform Enough?

by Herbert K. Ferguson

Unless land reforms are accompanied by expanding industries,
the hoped-for benefits will not be realized

A LONG procession of sun-tanned tenant farmers, sharecroppers and farm laborers filed past the big poster-covered box. One by one each reached a caloused hand inside and fumbled among the paper slips, groping briefly for a lucky draw. In a short while, the ritual was over. Now 127 families knew that their bonds to someone else's land were broken. Their dreams of self-sufficiency and independence had approached reality. For the others—well, perhaps the future would hold better fortune.

With minor variations, this scene has been repeated thousands of times since the last war in countries around the world. In all in-

stances, such scenes are occasioned by the implementation of programs of land reform.

The idea of and need for land reform are not new. Nearly 2,000 years ago Pliny wrote and published his memorable account of how large estates, concentrated in the hands of a few, destroyed the Roman Republic. The dominance of landed interests in public life and the general disregard with which peasant farmers were held made land reform an unpopular subject for both writers and statesmen until comparatively recent times.

With the profound social and economic changes which have occurred throughout much of the



world since the nineteenth century, however, a desire to eliminate economic waste and to improve land and human resources in large areas of the world's agricultural regions has popularized land reform. Nations no longer ask themselves whether they are in favor of land reform, but rather what direction it should take.

In the Communist world, land reform is regarded only as a tactical weapon—a means to an end. The improvement of the welfare of the individual is incidental to domination and control of both land and human resources. To the Free World, and especially to America, land reform is not a means, but an end in itself. This thought was implicit in the Homestead laws of the United States and, more recently, in the U. S. inspired large-scale land reform program launched in Japan following World War II.

ALTHOUGH a further examination of the significance of land reform as an issue in the ideological struggle between the Communist and the non-Communist way of life is beyond the scope of this article, it is important to keep in mind the difference between the pathological "reform" of the Communists and the frame of ref-

erence in which land reform is viewed in the Free World.

If we look back briefly at the agricultural histories of countries which have had to institute some form of land reform, one common characteristic stands out. In every instance, the land tenure system of these countries had rendered the agricultural economy an anachronism in the midst of expanding and dynamic development in other economic areas. Therefore, the traditional, inflexible tenure systems had to be scrapped.

If we look at countries in which land reform is still to occur, Brazil, for example, or at countries like Italy, now going through a reform, again we see that the core of the reform is a change in tenure institutions, involving, naturally, a redistribution of the land.

A hardening of the economic arteries in agriculture will persist longest in the so-called underdeveloped countries, which are characterized by plantation-type or semifeudal holdings. It has disappeared most quickly where the development of nonagricultural enterprise has attracted capital and labor so rapidly that the principal objectives of a conscious land reform are largely accomplished through normal functioning of economic principles.

An excellent illustration of

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this point is what has occurred in Venezuela. In this country, a "rigor mortis" of agricultural institutions set in 400 years ago, and even violent revolutions failed to break its confining grip. But when the vast mineral resources of Venezuela were developed comparatively recently, the crucial problem of tenure conditions disappeared almost overnight. It did so because the oil fields and mines offered such high returns to labor, capital and management skills that farm land lost its centuries-old importance as the most valuable production factor. In this case, the reform occurred with no conscious direction because prevailing monopoly institutions were overwhelmed by a stronger competitive force.

To illustrate some of the problems which are likely to be encountered in a program of land reform, attention is invited to events in Italy.

Here is a country that faced to some degree problems common to any nation that has come to grips with this issue. Italy shares with many countries (a) an economy which is predominantly agricultural and whose highly variable natural resources magnify differences in income from the land; (b) industries, many of which are inefficient and suffer from competition by foreign producers,

hence offering only limited attraction to investment capital or capacity to absorb many of the chronically unemployed; (c) education dominated by classic traditions; and (d) a government badly in need of reorientation to deal with the economic and social problems of this century.

Land reform became an urgent issue in Italy by 1950, and in spite of many last-ditch attempts to scuttle the program, a reform law was finally passed. When it emerged, it was apparent that much rationality and many broad social objectives had been sacrificed for political motives.

Italy, like many countries burdened by an excessive agricultural population, is characterized, on the one hand, by farms so small that they barely return a subsistence to their operators, and on the other hand, by farms of impressive proportions. To illustrate, 92 per cent of Italian landowners control only 31 per cent of the arable land, while 26 per cent of the farm area is controlled by only 0.2 per cent of all owners. The land reform problem in this country is clearly one in which the consolidation of small, fragmented, substandard "garden" plots is of equal importance to that of redistributing land from large properties. Yet, only the latter aspect was seriously considered, since time was

pressing and results could be more quickly attained through a concentration of effort on the large holdings. Besides, left-wing elements considered big landowners convenient political targets.

WORK, once begun, went forward on a "crash" basis. Income per acre throughout various regions of Italy was the standard criterion determining whether farms above a certain minimum size would be expropriated. Hunting preserves, cattle ranches, idle land and forest property—all were included under the law. The Land Reform staff examined bales of old tax declarations to judge income ratios. In a short time, expropriation plans were published and big owners learned their fate. Former owners were paid for their property with bonds which would reach their face value in 25 years. Thus, the government avoided an additional heavy cash outlay for land purchase at the same time it was financing actual land transformation. Under this system, low annual repayments over a 30-year period from newly settled farmers would be about equal to government obligations to former landowners.

The determination of value for the expropriated land was a thorny problem for administrators of the plan. The Reform agencies, with poetic justice, de-

cided to base it on an old, voluntary land appraisal made by the owners themselves some years ago. This naturally was far less than the market price, since it was on this valuation that future real estate taxes were to be based.

Work progressed. Mighty machines leveled hills, dug ditches, moved trees and boulders, tore through old hedgerows and laid surfaced roads. Large-scale operations were necessary to develop lands for intensive farming which formerly supported almost no one. After five years, nearly 100,000 families, most of whom had owned only the clothes on their backs, were tilling their own soil and had direct responsibility for 1.2 million acres. Arrow-straight roads, gleaming-white farmsteads, miles of irrigation works and new schools testified to the physical accomplishments of the program. World-famous experts crossed oceans to see the amazing progress.

How close has the Italian program come to the ideal which we mentioned earlier—the abolition of monopoly institutions, the injection of flexibility into tenure systems and an equality of incomes from the soil?

We must admit that it is a long way from the goal. We are expecting too much of a venture which covers only 2 per cent of Italy's

farm land and involves slightly over 1 per cent of its population. In fact, some observers think that the net result of the program will be negative, since they feel that the rigidities of a closely supervised reform structure may in time be more inflexible to external change than the tenure systems it replaced.

They fear, further, that this paternalistic government intervention in agriculture carries with it the potential danger of complete intrusion by the state—the exact antithesis of a self-sufficient family-type farm economy. Unless the archaic inheritance law is modified, the next generation will see land-reform farms, like others, reduced to fragmented scraps of property. It is most unlikely that the net addition to total agricultural production in Italy will be measurable because of the reform. In Mexico, production actually slid backward after the reform in that country.

YET, in the final analysis, we must consider land reform as a positive contribution to social progress. If a reform has failed to live up to what we have expected from it, the fault is ours, because we have expected too much. It is difficult to justify

economically. We examine it too critically because we lift it out of the context of the total economy. No land reform will ever solve the problem of overpopulation, nor will any substantial segment of the unemployed receive assurance of profitable livelihood. It cannot bring to a nation abundant natural resources where there are none. The potentials of land reform cannot be realized unless corollary programs for farm credit, extension services and realistic inheritance laws accompany it. Even though all these facilities were provided, no land reform can ever substitute for the dynamic influence of expanding industries. The accomplishment of an ideal land tenure pattern must ultimately be sought outside the field of agricultural economics. We cannot discount the possibility that land reform may defeat the very purpose for which it was designed.

Yet, who among us can foresee the sweeping changes which the future will demand of agriculture? The unlocked atom's energy, the crowding populations, the changing ideologies—all these will have vital effects. The reforms of today may be tomorrow's strait jackets. Agriculture's only constant must be the capacity to change. ■



A NEW FACE

FOR RETAILING

by Perry Meyers

Recent advances in retailing techniques promise bigger values for the consumer's dollar

A STEADY increase in productivity is admitted, by all hands, to be the basis of any rise in the standard of living. But there is widespread disagreement regarding productivity when we speak of it in connection with the distribution sectors of the economy. This disagreement most often arises from a lack of clarity regarding the role of the retailer in the distribution process.

The retailer's function can be most easily understood if we attempt to see it from the position of the consumer, rather than from the position of the manufacturer, or even of the retailer himself. As far as we can tell, the consumer asks three main things of a retail store: (1) that it provide the goods she wants; (2) that she be able to obtain these goods with a minimum of effort, confusion and physical or psychic

discomfort; and (3) that she be able to purchase these goods and services at the most reasonable prices.

Thus, retail efficiency involves not only the *cost* of a retail service, but also the *quality* of that service. From this point of view, it is interesting to assess some current trends in retailing.

Most of us remember the early days of the supermarket—the tough, unfinished stores and the overemphasis on bargains. There is a strong inclination to think of self-service and of self-selection as methods of reducing the expense of retail service. So they are. But more important is the fact that for more and more categories of merchandise, self-selection is the best method of making larger assortments readily available to the consumer. In this most vital sense, self-selection can actually mean *improved* selling service.

One of the features of a rising standard of living, and particularly of the development of a middle-income market, is the increase not only in the quantity and quality of consumer goods, but also in the variety. It becomes possible and profitable for more manufacturers to cater to more specialized groups of customers. The typical consumer now has a choice of styles, sizes, types and colors that previously was available, if at

all, to only the very wealthy who could afford custom-produced merchandise. Everywhere there is a shift away from the staples to the more highly styled merchandise. This development presents retailing with what today may be its biggest problem—how to make such enlarged assortments available to the customer.

Self-selection appears to be the best answer thus far devised to this problem. But it is, by no means, a perfect answer. It requires that the merchandise sell itself, so to speak—tell its own story, as does a dress, or carry upon it some recognizable characteristic, or brand, of quality. It requires a logic of layout so that the customer can find her way to what she wants. It requires special effort to dramatize featured items so that the customer is not dismayed by the monotony of limitless merchandise.

ANOTHER aspect of the problem of more varied and rapidly changing assortments is to find ways to make adjustments to changes in manufacturers' offerings and customer demand. Already, many stores have started to maintain inventory and order records by the use of punched tickets and tabulating equipment. In the offing are the application of purely electronic tabulation and the use of more advanced types of elec-

tronic calculators which can perform complicated operations at far greater speed than existing equipment. These new machines will make it possible for a retailer to see at a glance not only what is happening to an individual item, but to the character of the entire assortment in his store.

The efficiency of retailing is also being promoted by the development of suburban shops and shopping centers which cater largely to the automobile shopper. The modern suburban retailer is concerned with improving traffic flow, parking facilities, customer movement, merchandise display and other aspects of his operation in order to make shopping in Suburbia as pleasant and profitable as possible.

This investment in new, more efficient suburban retailing outlets tends to accelerate the obsolescence of existing facilities in the cities. To counteract this, the same managements which have pioneered in the movement to the suburbs have in many cases also taken the initiative in improving downtown stores, to make them more competitive in terms of convenience, comfort and efficiency. Scientific layouts, well-planned lighting, air conditioning and materials handling equipment are some of the elements of today's

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retailing modernization programs. This trend, still in its early stages, will be another significant feature of the evolution in retailing during the balance of this decade.

One of the most conspicuous postwar retail developments has been the rise of aggressive cut-rate operations, particularly in appliances and other hard goods.

Manufacturers have tended to overemphasize the importance of this trend toward lower margins. They overlook two counterbalancing forces. The first is that the more competitive department stores have recognized the new situation by going a long way toward meeting discount house prices. The second is that such large-volume retailers—the supermarkets and discount houses—have had to improve customer facilities in order to maintain their volume of sales. This has prompted increases in overhead and selling costs, with the net result that the original wide dif-

ference between discount and nondiscount houses has been narrowed.

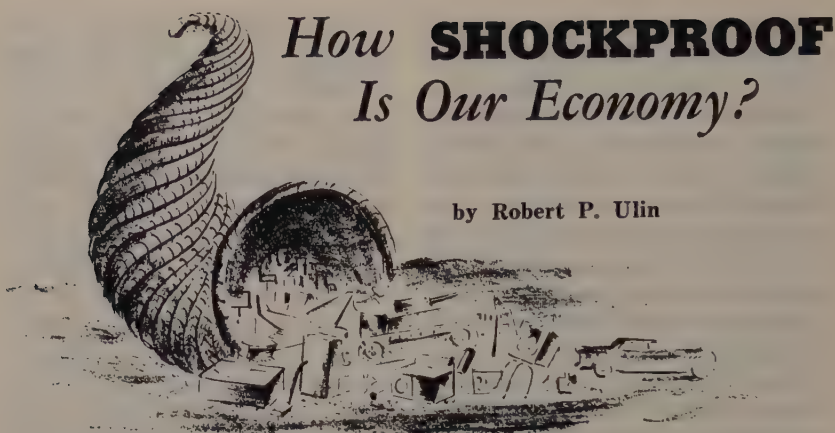
Looking back, we can see that the problems of offering a variety of goods, the increased demand for consumer services and rising modernization costs all tend to raise the expenses of retailers. On the other hand, the more efficient operations permitted by the recent developments we have discussed keep down the cost of sales. As a result, the margin of *individual* retail lines may change greatly, but *over-all* retail margins should vary only slightly in the foreseeable future, just as they have varied little during the past twenty years.

There is every evidence, then, that while margins may remain the same, the retailer will provide increasingly more efficient service. Tomorrow's customer should be able to obtain what she wants with greater convenience and at favorable prices. ■



Defense Department Assets

AT TODAY'S GOING PRICES, what is the worth of U. S. Defense Department holdings of property, equipment and supplies in military establishments throughout the world? After six years of arithmetic, "figger filberts" at the Pentagon recently came up with the totals. The over-all value of Defense Department properties came to a whopping \$123,866,000,000 with the Navy accounting for the largest portion, 56.4 billion dollars. The Army's share is 34.1 billion dollars and the Air Force, 33.4 billion dollars.



How **SHOCKPROOF** Is Our Economy?

by Robert P. Ulin

There is ample evidence that we can withstand cuts in the defense program and still maintain a healthy pace of economic expansion

DURING the past two years the American economy has shown that it can withstand a substantial decline in military spending. The cutback in defense activities that followed the Korean armistice in July, 1953 did not result in a depression, or even a serious recession. In fact, personal income and consumer spending set new records in 1954. And plant expansion—even without the defense spur—has reached near-record levels in 1955.

The ability of our economy to get along without a defense boom must go down as a fact of great importance in the world-wide struggle for power. Communist strategy assumes that the United States will continue to have depressions, thus demonstrating

the unsuitability of our capitalist system to the economic needs of a peaceful world. American strategy assumes that we can maintain a large defense establishment indefinitely, if necessary, but that world disarmament is a desirable goal in economic, as well as political, terms.

Specifically, the leaders of our government assumed at Geneva, and assume today, that we can cut our defense program by substantial amounts without causing a depression in the United States. In fact, it has been widely stated that we can do this without even slowing down the steady expansion of employment and incomes. The American people *want* disarmament and lower taxes, but they also want high employment

and rising living standards.

Is this sound economics? Can we keep cutting defense expenditures without unhappy effects on employment and income? An examination of how our economy performed during the period of defense cuts from June 1953 to June 1955 may supply us with an answer.

The 1954 decline in defense expenditures had the potential of a real shock to the economy. From the second quarter of 1953 to the second quarter of 1954, national security expenditures declined nearly eleven billion dollars. Moreover, the drop in defense spending, and the uncertainties which it aroused triggered a decline in inventory formation from an annual rate of five billion dollars in mid-1953 to minus three million dollars by mid-1954. Business capital expenditures for the same period declined 1.3 billion dollars, with the larger part of the decline occurring in the steel, aluminum, railroad, aircraft and heavy chemical industries—the key defense areas.

Altogether, then, there was a drop of more than twenty billion dollars in direct defense and other related expenditures from the second quarter of 1953 to the second

quarter of 1954. By mid-1955 a slight recovery had begun in these sectors. Yet, Gross National Product, the measure of total economic activity in the United States was already up by fifteen billion dollars! How could this be?

The explanation is, of course, that consumer spending took up much of the slack—zooming from 231 billion dollars in the second quarter of 1953 to 250 billion dollars in the second quarter of 1955. This was possible because consumer disposable income remained practically constant through the 1954 “readjustment” and then rose sharply in 1955.

This built-in stability of consumer income is partly the result of our tax structure. The personal income tax is progressive so that tax liabilities automatically decline as incomes fall; the process is even more effective if tax rates are also reduced. Reductions in tax rates are not automatic; they must be voted by Congress. However, it is difficult to conceive of Congress failing to take such action in time of recession, or indeed, in anticipation of recession, if the prospect is sufficiently clear.

This is one of the stabilizers that will surely come into play if there is to be another reduction in defense spending. Since the reduction will be programmed, we

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can be reasonably certain that cuts will be programmed simultaneously. And as in 1954, they will be tax cuts primarily for consumers.

MOREOVER, wage rates are quite likely in the future to behave much as they did in 1954-55: hold in a recession and move up very fast during the recovery. During the recession of 1953-54, wage rates remained steady and layoffs were kept at a minimum, despite a slowdown in the rate of business activity. In the business recovery, that followed in 1955, the upswing in prices and production did not result in greatly increased profits. Substantial amounts are taken out as wage increases, so that the impact on consumer income and spending is immediate and vigorous. Today it is wages—not prices or profits—that seem to resist the business decline. And wages get the bigger part of the benefits of an upswing. Real income (disposable income in constant prices) has increased in every quarter of 1954 and 1955.

This increase in “take-home” pay was the main factor in the turn from recession into boom. The government’s tax revenue suffered in 1954 and was not up much in early 1955; the same might be said of corporate profits. But with a 6 per cent increase in

average hourly wages and over three billion dollars a year cut from personal income taxes, disposable personal income showed a steady increase over these two years and provided the wherewithal to buy a greatly expanded flow of goods and services.

Still the expansion of the last year has not occurred simply because personal income increased. Industry could have cut its spending for new plant and equipment instead of pushing expansion to near-record levels. People could have saved; they didn’t. In 1953 they saved 8 per cent of their income after taxes. In 1955 they have saved less than 6 per cent, according to Department of Commerce estimates. What made them spend? Can we always expect a shift from high savings to high spending, such as featured the 1954-55 recovery in business?

It is probably unwise to discount the element of luck. But there can be no doubt that the removal of restraints on consumer and mortgage credit was very important. This made extra funds immediately available for spending, or, to put it another way, it made it easy for workers to use their bigger pay checks for the purchase of goods bought on time. There was no need to save up for the new house or new car; increased wages were enough to meet the time payments.

The government's greatest contribution, however, was in maintaining *confidence*. People were confident that the recession would not be allowed to slide on into a depression. This was a vital assumption for business firms that decided to go ahead with plant expenditures and maintain factory payrolls. But it was even more important in consumer behavior. People were confident that they could buy—even go into debt to buy—and not wind up with financial disaster.

People, then, were able to spend because real income increased. And they were willing to spend because government action maintained confidence. But they finally reached into their pockets and spent because they were *sold*. In 1954, for the first time in the postwar period, business really began merchandising. The introduction of bright colors for cars and home appliances was only the most obvious phase of an effort that included a startling variety of new products, greatly increased advertising and dealer sales efforts and, most of all, *price cutting*. Consumers not only found new and intriguing things to buy, but they found *bargains*, as well.

The importance of good buys or "good deals" for the consumer has been more obvious to the merchants than to most econ-

omists. Among the latter, there has been much talk about price rigidity in the modern American economy. But for the past two years, it has just not been so. Prices have been slashed "to make a sale." Today you can buy an automobile, an air conditioner or a TV set for 15 per cent less than you could in 1953. No wonder the savings rate dropped.

FLEXIBILITY in pricing is one of the essentials in the adaptability of a free economy to sudden changes in demand. The lack of such flexibility was frequently pointed to as one reason for the Great Depression of the 1930s. Here again, we do not know just how much flexibility there will be in a future situation. But it is reassuring that when goods came into free supply in 1954, business responded quickly with both newer, better products and more attractive prices. This is good management, and we may hope to get even more of it in the years ahead.

For the longer run, there is one factor we can count on perhaps more surely than either the confidence factor or the effectiveness of merchandising techniques. This is the continuing redistribution of consumer income, and the new demands which it brings. The incomes of "middle-class" families have actually been in-

creasing faster in recent years than the output of semiluxury goods for such families. Thus, to the surprise of everyone, there were actually backlogs of demand for consumer goods in 1954, although there were no obvious shortages in 1953. The new backlogs were for items needed to "catch up with the Joneses." It made no difference whatsoever that most people already had cars or places to live. There were several million families that wanted *better* cars and *better* homes—and had the money to buy them.

IT IS estimated that in the period from 1950 to 1955 an average of two million families per year crossed into the \$4,000-plus income bracket. During the next ten years, it is estimated that a minimum of 1.5 million families will reach this "middle-income" level each year. For these people, a new house (as opposed to a rented apartment) or a new car (instead of a used car) has become a possibility for the first time. The resulting upsurge of demand—fostered, let us remember, by lower prices and good credit terms—has been greater than anything after World War II, when there were pent-up savings, but not as widely distri-

buted. There is still no sign that these new backlogs have diminished. They may be even greater five years from now.

IT IS this continuing redistribution of income that provides the greatest safeguard against future recessions. As incomes increase, so does the potential demand for housing and consumer durables—the items for which materials and labor become freely available as they are released from defense production or from an unusual boom in new plant construction. In a year when industrial production is declining, the number of families shifting to the middle income bracket will be less, but the cumulative effect of the previous years' upgrading will remain. Our flexible tax system and the rigidity of wages will minimize the number of families that drop back to lower incomes.

This does not mean that there will not be any more recessions. But it does mean that recovery will be easier. Certainly it is good to know that this year's *gain* in consumer spending is equal to roughly one-half of our total defense program. Our economic good health is sound, and there is good reason to be confident about the future. ■



Bigness can promote efficiency, but when companies reach unmanageable proportions—

They Decentralize for Growth

by Irwin M. Stelzer



The illustration on the left side of the page depicts several interlocking puzzle pieces, each representing a different industrial division. The pieces are shaded with a stippled pattern. One piece at the top left is labeled 'PAINT CO.' and 'ACE'. Another piece below it is labeled 'ATLAS' and 'INKS'. A larger piece in the center is labeled 'ACME'. To the right of the 'ACME' piece is another labeled 'SOLVENTS CO.' and 'CHEM'. The pieces are arranged in a way that suggests they are part of a larger, complex whole, illustrating the concept of decentralization in large industrial organizations.

MODERN industrial society is composed primarily of large, multiproduct, multiprocess companies. The growth of such organizations has created intricate problems for corporate management, for today's large businesses are faced with questions which even a decade ago were unimaginable. Sample posers: should an automobile manufacturer buy or manufacture its steel? Should a firm use the facilities of its own transportation division, even though such services may cost more than those of an outside firm? Should the oleomargarine department of a dairy product company cut prices and possibly take business away from the butter department? How much should the ingot division of a hardware producer "charge" the fabricating division for sheet aluminum?

In an attempt to cope with such problems, American industry has hit upon the idea of management *decentralization*, which may or may not include geographical decentralization. This involves the establishment of separate, intrafirm divisions, with each division head possessing the authority and responsibility to operate—

within limits—as an independent producer competing with other outside, independent firms.

It should be noted that decentralization is not a new idea, although its implementation, in most cases, has been relatively recent. Swift & Co., Inc. instituted its “each department a separate business” policy at least as early as 1914, but Ford’s attitude on matters of decentralization was probably more typical. That firm’s lack of a managerial policy in this field, as late as 1947, so horrified Fortune that the magazine commented, “Imagine a company that boasted of a higher order of integration than any similar organization in the country, with ownership of a steel mill, glass plant, timber stands, maritime fleet, etc., and no accurate knowledge of which individual operation was paying its way, or which was padding the cost of the company’s end product by open-market standards.”

This confused situation—caused partly by overcentralization—was readily apparent from Ford’s profit figures. Between 1927 and 1937, Ford suffered a net loss, while General Motors earned 35.5 and Chrysler 28.6 per cent on their investments. Little wonder, therefore, that Ford—in common with most other large firms—turned to decentralization for a solution to its problems.

Although the form that decentralization takes varies greatly with each firm, there are, generally speaking, two main types. One is characteristic of the vertically-integrated enterprise—the firm which passes from one department to another goods that could be marketed at the end of each production stage. The other characterizes the firm which produces diverse, and perhaps competing products, such as Proctor & Gamble’s wide variety of soaps and shortenings.

LET US take an example of the first type. A vertically-integrated oil company sends crude oil through its pipelines, refines it into gasoline, fuel oil, lubricants, etc. All along the line, part of the production is passed on to the firm’s marketing division for distribution to retail outlets; the balance is processed further into other finished products. At almost any stage in the process, however, the firm could have sold its goods in the market rather than have passed them along to another division within the company.

Firms of this type naturally need to know the level of each division’s efficiency in order to

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ascertain whether vertical integration is, in fact, worth while. To determine this they must do three things: (1) transfer goods through departments at market prices; (2) calculate the investment and the profit on that investment for each stage of the enterprise; and (3) find out when it is cheaper to produce goods and services at home rather than purchase them on the open market. This is not the easiest thing in the world to do. A leading economic consultant reported recently that a fist fight determined the intracompany transfer price policy that is in effect today for a major oil company. The problem of the price at which gasoline should be transferred from the company's refinery to its marketing division finally was solved by abolishing transfer prices altogether, thereby, as the consultant put it, "neatly tossing out the baby with the bath."

But many firms have overcome the numerous difficulties involved in any decentralization decision, much to the benefit of both company and consumer. Take, as an example of effective decentralization, the case of the previously mentioned Swift & Co., Inc., a leading meat packer. Swift may sell a product like bacon at any one of three stages—fresh, cured or smoked; it may market ham as a fresh, cured, smoked or cooked

product. Oleo oil may be sold to a margarine manufacturer or processed further by the company itself into the finished product which appears on more and more American tables. It did not take the people at Swift too long to realize that, as they put it, "an intelligent decision as to the form in which a product should be sold, so as to yield the most profit, will depend entirely upon up-to-date information as to the cost of processing and the market that exists for the product in each of the various stages."

SUCH information can be obtained only if the department head is made to realize that his department is on its own and that it must function as efficiently and effectively as any separate firm. The company reaps the benefit of an oleo oil department alert to match the performance of competing oleo oil firms; the consumer benefits from a product manufactured by an organization which, at least as far as that product is concerned, must compete in the market place both in price and quality.

However, intrafirm "playing at competition," as Massachusetts Institute of Technology Professor Adelman puts it, "should not disguise the obvious fact that the *buying and selling* are mere book-keeping entries." Failure of a

division to meet the exacting demands of the market place is not *automatically* punishable. The parent firm may "carry" the unprofitable division either because it lacks the desire or ability to implement a decentralization program, or because it has a special reason for subsidizing the operation.

For the independent firm, on the other hand, failure to match up to the standard of efficiency demanded by the market means extinction. In the final analysis, therefore, it can be said that while the decentralized department of a vertically-integrated firm may (and probably will) function as effectively as a separate company, the independent, nonintegrated organization *must* so function in order to survive.

Now, let us consider the firm which operates separate divisions producing different and, perhaps, competing products. Everyone is by now familiar with the Chevrolet - Pontiac - Buick - Oldsmobile-Cadillac lines produced by General Motors, and the Plymouth-Dodge - De Soto-Chrysler-Imperial lines manufactured by Chrysler. First, we may ask why, in an industry where there are great pressures to mass produce a uniform product, do these firms turn out so many different products? Initially, the decision may have stemmed from a desire to sell

cars to individuals in all income classes. Gradually, however, the distinctions which separated these companies' many products have become somewhat hazy. GM's Buick, for example, is currently advertising some of its models to sell in the same price range as that of the so-called "low-priced three"—a triumverate which happens to include GM's own Chevrolet.

THIS indicates that General Motors is following, all the way, the plan of decentralized management first laid out for it by Alfred P. Sloan in the 1920s. Sloan, then president of GM, concluded that his firm had become so huge that it was becoming lethargic. He decided to improve GM's efficiency by reorganizing the company so as to resemble a federation of smaller firms. General Motors would provide financial backing, research facilities and a long-run view; decentralization and product diversification would add flexibility. The success of this policy is mirrored in the firm's steadily rising profit-to-investment ratio.

This trend toward the establishment of semiautonomous divisions within large corporations, then, reflects management's realization that centralization can be, and often is, carried too far. Analysis of Bureau of Internal Revenue figures for 1947 reveals

that corporations with assets of \$100,000,000 and over earned 15.1 per cent on their net worth after taxes; while corporations with assets of under \$50,000 earned 21.0 per cent. This disparity may be attributable, in part, to the centralization of decision-making and to the consequent loss of flexibility often associated with corporate gigantism.

The question remains: how real is the competition between such divisions as Chevrolet and Buick, or between Swift's butter and oleo departments? Certainly, there can be little doubt that the head of GM's Buick division is anxious to make a good showing, even at the expense of his comrade-in-management, the chief of the Chevrolet division.

THE effect of technology is most noticeable in the automobile industry. There can be no doubt, for example, that a division head cannot go to the same lengths as he could if he were the head of a separate automobile concern. He is not completely free to alter the design of his product, for GM, for example, achieves substantial economies through the use of only three basic body designs. Nor can he make pricing decisions which will improve the profit picture of his division at the expense of the over-all showing of General Motors. It is within such broad

limitations that the divisional head must operate. This does not mean that the areas left open to him are not substantial. He can, for example, compete through the efficiency of his dealer organization and the vigor of his advertising methods.

The effect of market structure on intrafirm rivalry is demonstrated by the relationship which exists between Swift's butter and oleo departments. Since both must meet the competition of numerous firms in their own fields, they are less likely to worry about the impact of their decisions on each other's divisions. The consequent intrafirm rivalry often resembles the competition which would exist if the departments were separate firms.

In summary, therefore, the effects of the growing trend toward decentralization vary from firm to firm and from industry to industry. In most cases it is not a perfect substitute for the competition of independent firms. It is, however, superior to centralized decision-making in many ways. The decentralized company is enabled to assess and improve the efficiency of the various phases of its operations. Thus, both the consumer and the economy obtain at least some of the benefits which inevitably result from the competition for the consumer's dollar. ■

Arno H. Johnson

Vice President and Director of Research,
J. Walter Thompson Company



Living Standards Must Be Taught

Q MR. JOHNSON, in a recent speech you stated that by 1965 we should be producing more than 500 billion dollars worth of goods and services annually. You said that the big problem will be to raise our sights on what constitutes a good standard of living so that we can actually consume what we shall be producing. Is that substantially correct?

A Well, I think we have pretty well established now that our ability to produce is far beyond what we believed possible before the war. That 500 billion dollars you mentioned was really the President's estimate of our ability to produce in 1965. The Joint Congressional Committee on the Economic Report set the figure even higher—at 535 billion dollars—and I think that that is a reasonable projection in terms of our probable labor force and our history of economic expansion since the war.

Q What would such a level of Gross National Product represent in terms of consumer items that would have to be absorbed?

A In order to support a 500-billion-dollar economy of production—allowing for adequate defense requirements, for new plant and equipment and government expenditures—we shall have to consume 350 to 357 billion dollars worth of personal goods and services. That would call for a 50 per cent increase in the over-all standard of living of the American people in the next ten years. Unless we change

some of our concepts of what a high standard of living should be, our ability to produce will outrun our ability to consume.

Q Does this imply that the disposable income with which to buy will be available to consumers?

A Productivity in itself produces revenue. In other words, a production of 500 billion dollars will produce the revenue to buy up that production, by and large. That is the way our economy is based. And the major part of that revenue obviously goes to the people who produce the goods and services.

Q What do you mean when you say we need a change in our concepts of what a high standard of living should be?

A If you study the prewar living standards of our population—the government made some studies early in 1942—and divide up the population by income groups from under 500 dollars per year on up to over ten thousand dollars, you will find that there was a different concept of living standards in almost each income group. That is demonstrated even in the case of food. There was, prewar, a very definite pattern of increasing consumption on a physical and dollar basis at each income level. Now, my point is that in prewar years the average income of a family in a middle-income bracket was one thousand to fifteen hundred dollars. We have moved up in our income groups so rapidly that a few years from now the major portion of our families will have annual incomes of more than five thousand dollars. Allowances should be made for the shrinking value of the dollar, of course. But these families moving up this way do represent a great opportunity for changes in our standard of living, even if they were to take on only the kind of a standard of living that upper-middle-income people enjoyed in prewar days.

Q Is a rising standard of living always characterized by an increased purchase of the same goods?

A As you get up into the area of better and higher incomes, there is an increase in the disposable income that might be called discretionary—beyond just the bare needs—which means that different individuals will have different ways in which they will want to spend. Some will want to take a trip to Europe. Others will like to engage

in sports, to have a shotgun or something like that. So it isn't necessarily true that you have exactly the same pattern.

Q *Mr. Johnson, how does a family move up into a higher income bracket? Which comes first, the greater production or the higher income?*

A The two go together, like two people playing leap-frog, although I think, perhaps, the ability to produce comes first—not necessarily the production itself, because then you pile up too much, but the ability to produce, the technological advance. That's the thing, in my estimation, that makes the higher pay check available. With increased productivity per worker or per capita, obviously the revenue that can be paid that worker or person will be greater. Now, the transition from greater productivity to higher incomes is not always smooth, but it has been going on nicely during the last five years when the average weekly earnings in manufacturing increased by 20 per cent while there was practically no change in the price level.

Increased purchasing power must be used in new ways

Q *Now, in order to keep our economy running smoothly, your contention is that the consumer must be educated to use his income to buy up the productivity. Don't you believe people can make up their own minds about how to spend their money?*

A You will have to remember that the background, the environment of a majority of us was keyed to a lower level of over-all productivity in this country. The mass of our population lived, prewar, at incomes of around \$25 a week, which perforce meant that most of us were on the wrong side of the railroad tracks by today's standards. As productivity has been increased, most of us have increased our ability to buy goods and services beyond the level of necessity according to prewar standards. I believe people need to be stimulated to use their increased purchasing power in new ways which represent a higher standard of living according to 1956 concepts.

Q *Don't you believe people will naturally want to buy a car, a refrigerator, a TV set, and so forth, once they have the money to do so?*

A A higher standard of living cannot be measured merely in physical units. I think too many people look upon the durable goods in our economy as a true measure of our new pattern of living. That is very misleading because only some 14 per cent of our current expenditure of 250 billion dollars for goods and services represents consumer purchase of durable goods. In other words, the standard of living is measured only in part by durable goods like automobiles. It covers a great many other things. Since 1947, there has been a very big increase in expenditures of the average family for some form of education. There has been a very big increase in what families allocate for religious activities. There has been a change in the diet and a change in what people do in their leisure time, the way they enjoy life. There has been a trend toward larger families. I think this is all a part of our new standard of living.

Q *What can we do to make ourselves more capable of absorbing the potential of our productive capacity?*

A Well, I don't think there is any one thing that anyone can do. Certainly, businessmen by their progressive marketing and educational efforts can help considerably. Let me illustrate my point with a simple story about bathing habits. If you divide the population up into income quartiles, you will find that the people in the prewar higher income groups took a great many more baths than in the next income groups, and so on down the scale. Yet, the self-interest of a manufacturer, through the various pressures of magazine and television advertising, can help to change the bathing habits of people whose incomes have gone up during the past sixteen years. In other words, if people were to move up even in their bathing habits, from the levels of the lower middle class of 1940 to the levels of the upper class of 1940, you'd have terrific increases in markets for soap and in demands for water in cities. It is as simple as that.

Q *Well, Mr. Johnson, can we always assume that the goods the manufacturers have available are really directly related to people's needs? In other words, is there a potential danger that manufacturers will concentrate on getting rid of the goods that they wish people to buy rather than what people really want?*

A I think you can go off on a tangent on both counts. As you have mass millions moving up into higher income groups, their concept of a need may not be what really is the best since many have not had a chance to experience something different. So I don't think you can rely entirely on consumers telling you what they want or what they need, because their needs, their motives, are based on concepts derived from past experience. On the other hand, I think it's just as dangerous for a manufacturer to come out and produce something, and then with a huge promotion effort cram this down people's throats. That is bad, too, and in the long run it won't work anyway. There has to be an element of working in between.

Q *There has been a great deal of talk about developing a market for that second car. Will this meet a real need?*

A Up until a few years ago, manufacturers had thought of the second-car market only as a luxury market. Well, consumer surveys now show that seventeen million families in this country are single-car families where the vehicle is driven to work every day by some member of the family and therefore is immobilized five or six days of the week. Now, those left at home aren't always conscious of the need for a second car, and yet the need is clearly there. The need will be expressed once the woman decides that she wants a car and her man agrees that she should have one.

A matter of discretion and family choice

Q *Mr. Johnson, are there any studies of these seventeen million families which indicate that many of them could afford a second car?*

A Yes. For example, in the 7,500-dollar income class, which obviously can afford at least one car because 97 per cent of them have a car now, about 25 per cent of those families are in a situation where the single car in the family is driven to work. Now, if you can carry this down through the different income classes, there certainly will be a large number of families which can use and afford a second car. They might have to cut out some other thing. It's a matter again of discretion and choice of the family. But it could very easily be made more important to have another car than to do something else.

Q *In other words, what we're getting at is prompting the individual to adapt his increased income to the changes in our pattern of living.*

A Yes, that's right. Now some of those changes are stimulated by others. For example, the desire to move to the suburbs, to get out of the city because the small apartment is no longer large enough for the three children—this will help to create the need for a second car. These things work together in creating the need.

Q *Is there any limit to this self-regenerative process of higher productivity, higher incomes, greater expenditures and higher productivity again?*

A The only limit I see to this process is the productivity of the people and the availability of raw materials. Now, we've found that a great many of our raw materials are not necessarily scarce because new things can come in as substitutes. I don't know where the limit is. If you simply look at what the people with incomes of more than ten thousand dollars were doing in prewar years and realize that they represented a very minute section of our total population, and if you have the productivity to provide more things today for millions of families, then you can see that there is a long way to go before we have to worry about a saturated market for most of the things we know today. And needs are changing every day.

Q *Mr. Johnson, provided that there is no war or abnormal interruption in the production processes, would you say that this preoccupation with what the consumer will do is a fairly normal and permanent consideration from now on?*

A I think it is in our present economy. I think it may have been a consideration before the war, but we didn't recognize it. We failed to recognize its existence, but it was there. In my estimation, the major problem is definitely that of prompting consumption, which is not a problem at all, but an opportunity. It means that the mass of our population will have a chance to reach considerably higher levels of living standards.

Thank you, Mr. Johnson. ■

you may want to know...

CHARITY RACKETS have become so widespread that it is wise to investigate before you give. Check on national charities with the National Information Bureau, Inc., 205 E. 42 St., New York 17, or at the National Better Business Bureau, Chrysler Bldg., New York. For local charities, try your Community Chest or Chamber of Commerce.

Lightening the Load



IF YOU coat your snow shovel with melted paraffin, you'll find shoveling a much easier task. The snow will slide right off rather than stick to the shovel.



The NEW New Look

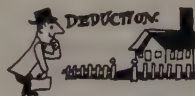
THE Ivy League Look and its charcoal grays are out, predicts the Men's Apparel Guild in California. Style-conscious men should keep a sharp eye on the Chinese influence (sport shirt with the

Mandarin or stand-up collar), Mexican design (mucho color with "serape" striped shirt), and the ultra-fancy (maroon velvet after dinner number and a pale pink sport shirt with white lace trim on the collar and down the front).

Beware of "Harmless" Drugs

AN OVERDOSE of aspirin can cause fatal poisoning especially to children under five. The only sure safeguard is to keep it out of reach of your youngsters' groping hands.

Home on the Job



YOU can claim an income tax deduction for living at home—if your job requires that you work regularly in two cities and you maintain residence in the one where you spend less time. You can deduct part of your expenses for staying with your family because it is considered travel "away from home"—away from your major place of employment.

Sweet Pipe Dreams



TO SWEETEN a pipe that has soured from lack of cleaning, saturate a cleaner with a liquid commercial sweetener or alcohol and run it through the stem and bore. This will dissolve sediment. Then soak a toothbrush in the sweetener and scrub the bowl with it, letting the pipe dry thoroughly. Leave a dry pipe cleaner in the stem to absorb moisture.

Coronary Concern

AFTER the President's heart attack, many questions cropped up concerning coronary thrombosis. Coronaries are fatal to only about 20 per cent of victims. And once a man passes middle age, chance of an attack lessens with increasing years. Heart attacks are also usually less severe in older men.



Tire-less Driver

IF YOU are a good driver, you may get six times as much wear from your auto tires as a bad driver, according to a recent U. S. Rubber survey. Tread life expectancy can vary anywhere from

10,000 to 60,000 miles. The manner of driving the car is the greatest single factor affecting tire mileage, more so than climate, terrain or periodic inspections.

Double-Income Dilemma

THIS YEAR'S individual income tax instruction booklets provide a new table for couples filing joint returns. Couples may look up the tax due rather than divide their net income by two, find the tax on that amount and then multiply by two.



"Win One for The Rock"

THE GREATEST MOMENTS IN SPORTS, a Columbia record album, contains highlights from sports events during the past 30 years. A Knute Rockne pep talk is the high point.

Steak At Stake



DON'T THAW frozen meats under running water or in front of fans, warns the New York State Experiment Station. Allow time for thawing in the refrigerator (12 hours for an inch-thick steak) or at room temperature (2-3 hours for the same steak).—A. G.



Leisure: the

by David M. Potter

Economic Aftermath

Spare time has proved to be the "breeder" of positive economic consequences

THE EXTENSION of leisure in modern American life is one of the significant developments of our time. In every direction one finds evidence that the ancient need to work from sun to sun and to die in harness no longer prevails. It seems, in fact, to be generally agreed that the curse of Adam ("In the sweat of thy face shalt thou eat bread") has been repealed.

This increase in the opportunities for leisure is closely associated with the increase in the supply of material goods. For, in the last analysis, both leisure and abundance *are* products—twin products, one might say—of modern technology. The essence of an improved technology is that it enables the worker either to produce more goods in a given time,

which implies abundance, or to produce the same quantity of goods in a briefer time, which implies leisure. In fact, improved standards of living and the increase in leisure time have appeared, in the American experience, to be dual aspects of the same thing.

Actually, American society has applied entirely different principles to the allocation of the two. As everyone knows, the income level which each employed person attains is dependent upon the economic value of his work—his wage or salary reflecting his training, skill and competitive effectiveness. Therefore, the social implication is that some people will have larger incomes than others and will enjoy a larger share of the available goods than

others. This has always been the case, although very much more so in the past than at present.

But while the economic rewards, in the way of goods, have been allocated on a more or less unequal basis, leisure time has been placed on something approaching a basis of equality. For access to leisure is awarded to the individual not in proportion to economic effectiveness, but very largely in accordance with the individual's age and sex.

The public school laws and the Fair Labor Standards Act of 1938 assure us that even a person in poverty shall not work for pay *before* he is sixteen years old, and the Social Security Act assures that he need not work *after* he is sixty-five. The Fair Labor Standards Act also penalizes an employer who works an employee for more than forty hours a week without extraordinary compensation. Thus, the pattern for the ordinary man is that he begins work later in life than in former generations and discontinues it earlier. For a period of between forty and fifty years the average man is a worker, with his work load remaining fairly constant—at about forty hours out of the 168 in the week—and a pleasant daily alternation between the

hours of work and the hours of leisure.

Women also have benefited from the new leisure. Those who are employed have gained advantages paralleling those of male workers. But those who are homemakers have felt the change primarily through the development of processed foods and other materials, and through mechanization of household operations. Of course, the rearing of children has not been made substantially easier. But after the passing of this period of peak load, of perhaps fifteen years, housework alone remains demanding. Then the American woman enjoys a semileisure, which will continue for as long as her home endures and which will not be sharply altered by an arbitrary retirement age.

The most paradoxical development in the allocation of leisure is that sparetime, instead of remaining the exclusive domain of a privileged class, is attained in the fullest measure by manual workers and is perhaps enjoyed least by the executive or professional man whose occupational and social status is considered to be the highest. This paradox is easily explained. Technology has taken over a large share of the manual laborer's task, but it cannot do as much for the work of the lawyer, the doctor, the indus-

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trial manager or the public official, who constantly carry home an evening's work in their brief cases.

Most of the attention which leisure has received in recent years has come from sociologists. Economists have given very little notice to it, presumably on the theory that leisure time is, almost by definition, nonproductive time and therefore lies outside the orbit of economics. But, in fact, a broader view of what constitutes economic phenomena will undoubtedly bring leisure back into the economic picture.

IT IS well to recognize that the fundamental concept of leisure is not a positive one at all. It is a negative concept of time in which a person has no necessity to work. As such, it is only an interval, long or short, which, like a container, has to be filled with some kind of activity. When the time interval cannot be filled, it is one of the most distressing experiences that a human being can endure. In penology this is known as solitary confinement. What is the nature of the activity with which the American people fill their leisure? Hundreds of different activities, of course, make up the answer, including such diverse recreations as traveling, sports and games in all their innumerable forms.

But leisure comes mostly in limited segments to tired people at the end of the day, and the great bulk of it is spent in ways that do not require much exertion: reading newspapers and magazines, listening to the radio and phonograph, looking at movies and TV. To say this is to say that a large part of what passes for noneconomic activity is actually a form of consumer activity, for the media which "fill in" leisure hours constantly address the reader or auditor as a consumer, stimulate him as a consumer, and, as some of them would claim, even "educate" him as a consumer.

If the receptive attitude of millions of people viewing programs in dark rooms is essential to the annual sale of eight million automobiles and other industrial products in proportion, then it would certainly follow that the appearance of passivity among these spectators is truly illusory and that, instead of releasing people from economic activity, the shorter work week has, in fact, shifted their economic function by reducing the time devoted to production and increasing that devoted to consumption.

THE new leisure, of course, would hardly fulfill its economic function adequately if it merely indoctrinated its beneficiaries in

the gospel of consumption. It must also give opportunity for and induce actual consumption. In addition, this consumption must play its part in maintaining some degree of parity between the capacity to produce, which has grown with such incredible rapidity during the last century, and the capacity to consume, which has threatened economic disaster by failing to keep pace with productive capacity.

That the media of entertainment and communication do stimulate consumption of all kinds of products—from beauty preparations and cigarettes to washing machines—can hardly be doubted. The leisure necessary to this stimulation is an essential factor in the consumption. But it is a factor whose value cannot be isolated, and, therefore, cannot be precisely measured in connection with most forms of consumption.

However, there are certain increasingly important forms of consumption which have resulted directly from and are dependent wholly upon the new leisure. These forms provide an unmistakable index of the significant role which leisure plays in our economy today.

Such forms of consumption require that the economy provide certain distinctive goods or services which might be called the commodities of leisure. One such

commodity appears in the general constellation of sports. The American sports industry today is a two-billion-dollar affair, with vast amounts being spent for fishing tackle, hunting equipment, outboard motors, golf supplies and the like. This sum, of course, does not include the immense expenditures for admission to baseball and football games, horse races and other sporting events.

ANOTHER of the commodities of leisure is travel. Within our own country, we already recognize that certain areas, and indeed whole states, look to the tourist trade as a major source of revenue. But the true dimensions of tourism as an economic factor come into sharp focus when we are confronted with the fact that American travelers in Europe are expected to spend close to \$750,000,000 before 1955 is out. This amounts to about a quarter of Europe's total earnings from all its exports to the United States and Canada.

Still another of the economic areas which depend upon a need created by leisure is the entertainment field. Here one has to take account first of the industry which produces motion pictures, radio sets and television sets, and second, of the array of performers on screen, radio and television, song writers, musicians,

singers, dancers, script writers, actors and all the rest who turn out the tremendous supply of entertainment. It is interesting that they resemble other modern producers whose products will not have to last too long and will, by relatively rapid obsolescence, create a need for more production within a reasonable time. We are all accustomed to the complaints of our elders that present-day houses and clothing lack the durability of their counterparts of the past. It is also true that popular songs and movies have a shorter life than any of the songs or dramas of the past, and for the same reason which makes for obsolescence in last year's automobile. People *want* a rapid turnover in their possessions, and they like change.

These illustrations suggest the actual magnitude of certain forms of economic activity which depend directly upon leisure. No set of illustrations, however, can give an adequate indication of the over-all significance of leisure in the American economy. At a stage in economic development when the danger of losing the balance between production and consumption has been the greatest peril in our economy, and indeed the greatest domestic problem in

our national life, leisure has served as a balance wheel for our technology and as a great equalizer of production and consumption. At a time when productive capacity tends to outrun consumption, leisure has given a new outlet to production in providing for the recreations of those who are, at least temporarily, nonproductive.

To express this in another way, leisure has achieved the subtle economic success of cutting production by diverting some producers into nonproductive activity, and then utilizing this activity to create a need for more production. In the presence of a situation where one worker can produce more than several consumers can use, leisure has simultaneously created fewer producers, more consumers and new kinds of consumer demand for new forms of production.

Far from being a mere social phenomenon, therefore, the increase of leisure is an important economic development. And if leisure and abundance were the offspring of a new technology to begin with, the wide diffusion of income and of leisure are today important factors in sustaining the economy within which the new technology operates. ■



Who Makes What?

by Marion L. Briggs

As firms develop more varied product lines, it becomes harder to tell

WHEN A long-established American textile house begins to manufacture chain saws, aircraft-engine mounts and electronic instruments—as well as textiles—a second look by the curious is definitely called for. When thousands of other firms follow a similar pattern of expansion, as they have been doing during the past decade, then the diversification boom reflects something more than just a postwar upsurge in a trend that started back in the thirties.

Product diversification—both a result and a cause of a growing economy—has actually become a way of business life. It is bound to have significant and multiple effects on consumers, individual producers and the economy in general.

At the outset, we can list three of the more-clearly defined economic consequences of this development. First, there is a continuing increase in product research which constantly turns up new

and exciting goods for sale. Second, diversification may or may not provide a stimulus to competition. It may because more companies are entering old and new fields; it may not because the more powerful firms that are financially better able to join the diversification bandwagon can become even more entrenched. Third, diversification tends to mitigate business fluctuations since multiproduct firms can adapt themselves more rapidly to changes in consumer demand.

But why do firms diversify? "To make money," answers William O'Neill, president of General Tire & Rubber Co., formerly a single-product concern now turning out a wide variety of chemicals and plastics. "People invest in our company not to make tires, but to earn profits."

In their efforts to improve and stabilize their income, companies are generally motivated to diversify in order to: (a) balance products that have seasonal or

cyclical sales; (b) replace existing items for which there is a declining market; and/or (c) make secure—and perhaps less costly—their own sources of supply. Tax considerations also occasionally compel and frequently facilitate the movement to diversify.

Examples of firms that have diversified in order to offset seasonal sales of their main products are provided by Chrysler Corporation's entry into air conditioning; Nash Motors Co.'s (now American Motors Corp.) merger with Kelvinator Corp., in order to enter the household appliance field; and Carrier Corp.'s move into the production of heating equipment in order to supplement its line of air conditioning equipment.

Alco Products (formerly American Locomotive Co.) exemplifies the case of a manufacturer who was forced by a declining market for its one product—in this case, locomotives—either to diversify or to close down shop. Alco chose to remain in business, and by 1954 was making some three dozen items for eleven major markets. It had diversified to the point where three-fourths of its total shipments, which did not involve locomotives at all, went to such industries as chemical, power, machine-tool and farm equipment. This story of diversi-

fication, progress and profit was topped off last year when the U. S. Atomic Energy Commission awarded Alco a contract to build the world's first nuclear package power plant.

Rockwell Manufacturing Co., another case in point, diversified because the future was dim for their gas meters. During the past fifteen years the company scoured the nation for likely product lines and acquired a group of firms making allied products (taxi meters, fare registers, power tools, electrical conduit and related items), and multiplied sales eight-fold.

AMONG the organizations that have diversified in order to secure their sources of supply, Halliburton Oil Well Cementing Co. provides an outstanding example. At its inception, Halliburton was engaged solely in cementing operations on oil and gas wells. Today the company manufactures, for its own use as well as for sale to others, a complete line of specialty items used in the drilling and operation of wells.

"We manufacture most of the items needed in our service operations," explains vice-president William D. Owsley, "because we

Marion L. Briggs, teacher and writer, is a regular correspondent for various industrial and trade journals.

feel that it is more economic and efficient to make our own tools and supplies than to purchase them from various individual companies."

In diversifying, for whatever reason, companies may be further motivated by tax considerations. For example, a company in a top tax bracket may purchase a basically sound plant that has been losing money and use the tax credits (tax loss carry-forward) of the purchased firm to offset its own high tax assessments. The earnings "saved" can be used to put the acquired outfit on its feet, a form of financing diversification-expansion.

SIMILAR situations, in reverse, are also possible. A firm with ample working capital may hit a period of large-scale losses. It decides to purchase a high-profit company whose earnings may become tax free under the purchaser's tax credit. This action, while bolstering the firm's financial position, may also facilitate its entrance into a new line.

The recent merger of Textron, Inc. with American Woolen Mills and Robbins Mills—to form the new Textron American Inc.—illustrates this principle. Textron had incurred substantial losses in 1952 and 1953, but the subsequent merger provided Textron American with sufficient

earning power to expand its non-textile operations. Such operations in 1956 are expected to account for half of the firm's sales. These nontextile sales, not-so-incidentally, provide a net return of 10 per cent compared to 5 per cent on the sale of textiles.

The number of successful case histories of companies diversifying for profit should not lead to the conclusion that diversification is a cure-all. It can be an end-all. More than four out of five new products marketed after World War II have been resounding flops. In deciding whether to diversify, managements have to find the correct answers to some tricky questions. Should the new items be developed within the firm or acquired from without? Will any required increase in the sales force make the operation unprofitable? Will diversification lower the prestige of a firm that enjoys the reputation of a quality, specialty producer? Will diversification that involves a new labor market or dealings with new unions complicate the firm's labor relations?

DIVERSIFICATION failure because of inadequate planning is illustrated in a story, related by Peter Hilton of the Young Presidents' Organization, about a large table appliance manufacturer who decided to expand into washing ma-

chine production. After studying all competitive models, the firm's engineers turned out a unit considered years ahead of its time. But two months of home trials proved that the machine's construction made it too costly to service and maintain. The firm lost \$300,000 in the deal and learned that diversification, even on a trial basis, can be costly business.

One may rightly infer from this case history that diversification is becoming increasingly expensive—a fact that may make the introduction of new product lines feasible only for the firm with a relatively large budget. For if new items are to be developed within the company, it is necessary to provide a costly engineering and research department. It is also an increasingly expensive proposition to obtain new products through the purchase of outside firms since there are very few good outfits left that can be had at moderate prices.

While the effects of diversification on the individual company

are not hard to measure, the effects on the national economy are clearly more complex. In particular, economists are concerned with the over-all influence of diversification on competition.

SOME argue that the increasing cost of diversification to develop and finance new products will strengthen the position of large companies and, consequently, lead to monopolistic conditions. On the other hand, diversification clearly may enhance a firm's ability to compete. Certainly, as a company diversifies to boost sales, it faces constantly greater opposition as it enters additional fields. This nourishes rather than restrains competition.

In the final analysis, the requirements of successful diversification—long-range planning, new product research, consumer studies and flexible management—are in line with the very developments which have contributed to the dynamic postwar growth of the American economy. ■



Who Owns Railroads

MORE THAN half the world's railway mileage (about 54 per cent) is government-owned. Only in the United States is most of the entire network owned and operated by private companies. In the rest of the world, three-fourths of the mileage is in public hands.

*current trends
and outlook*

Economics

in

Action

*total output of
goods and services
reaches a new high;
production, wages,
and profits
continue to rise;
some bearish factors
—but over-all
economic prospects
remain bright.*

AT THE YEAR END, the economy continues in high gear. Total production of goods and services in the third quarter achieved an annual rate of \$391.5 billion—a record high that was \$32.5 billion higher than the comparable year-earlier figure. Consequently, Gross National Product should total at least \$385 billion this year and, according to many economists, may rise to \$400 billion or even higher in 1956.

These are some of the more bullish signs on the economic scene: the Federal Reserve Board index of industrial production rose to 141 in September from 124 a year earlier (1947-1949 average equals 100), and continued to rise in October. Steel mills are operating near 100% of capacity and are still not meeting demand. Reflecting the huge gains in industrial output, electric power production is up 18% over a year ago, and freight carloadings are averaging well over 800,000 units a week, comparable to the peak of the Korean war boom.

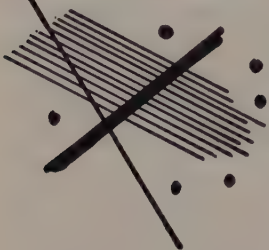
This growing volume of production has been instrumental in increasing jobs. Civilian employment reached 64,733,000, close to the 65,488,000 historical peak achieved in the preceding month before schools reopened. Wages and overtime have also gained so that average weekly earnings in manufacturing rose to \$78.69 in October, almost \$6.50 above the year before. Similarly, corporate profits have chalked up substantial gains.

However, there are some factors on the bearish side. First, farmers' net income has been declining at an accelerated rate; half of the 10% drop from a year ago occurred in the third quarter. Second, auto production may not exceed this year's record total of 7,500,000 or more units, and any drop from this level—which is decidedly possible—would probably have adverse effects on such industries as rubber, oil, machine tool, and steel.

In addition, the decline in home building starts from 1.40 million in January of this year to 1.20 million in September—largely a reflection of mortgage credit restraints—is another restrictive element. This, however, may be largely if not entirely offset by the trend toward more expensive units, increased expenditures for home modernization and a continuing rise of business spending on plant and equipment.

Balancing deflationary trends against those contributing to a continued advance in business activity, it would seem that the net effect may be a temperizing one, but certainly no reversal in the current trend of expansion during 1956 is foreseen. ■

A scientist dreams of



• Economic Frontiers in 2000 A. D.

by George R. Price

TO THE PRESIDENT AND REGENTS
BENTLEY COLLEGE
NORTHRUP, VIRGINIA

GENTLEMEN:

IF MY physicians are correct in what they tell me, you will be reading this letter late in 1955. The securities I am leaving you should be worth something in excess of one million dollars. This sum, if invested conservatively in government bonds, tobacco company stocks and such, could yield a moderate return that would substantially strengthen the position of Bentley College among the smaller southern educational institutions. However, because I foresee for the United States a period of extremely rapid industrial growth, I feel that by an intelligent and more radical choice of investments, this sum can be multiplied many times over in a few decades, thus enabling Bentley College to develop into a major university.

I urge you, therefore, to keep

my bequest separate from your regular funds and use it for investment exclusively in fields where rapid growth is likely. In that way you can seek major, long-range gains and not be frightened by any short-range dips in the curves of economic growth.

The economic picture I foresee for the end of the century is that construction will be our major industry, the sun will be our major power source, and the most important raw material will be water. Most of the inventions through which these developments will come will be made by large corporations. But some—and particularly some of the more radical ideas—will come from small organizations or individual scientists. Here you will find opportunities for enormous profits. A small company holding a single basic patent in one of these new fields can quickly grow into a giant corporation.

Probably the most important opportunities of all will come through development of a new

type of chemistry involving chemical reactions, or energy conversions, by "tailored molecules" in "lock-and-key" relations. In the ordinary chemistry of the research laboratory and the industrial plant, molecules dance around in helter-skelter fashion, reacting when they happen to collide in a particular way. Hence these processes tend to be wasteful of energy and to yield by-products, often useless, through side reactions.

In the living cell, of course, things happen very differently. There the molecules unite closely in "lock-and-key" relations with complex enzyme or catalyst molecules that produce carefully controlled reactions with high efficiency. A great deal of research today is directed toward finding out how biological catalysts work. Yet, few men are thinking about developing completely new types of complex molecules to give *controlled* reactions in a similar way.

In time this is bound to come, and these developments can change the whole pattern of our industrial power, by enabling us to "tailor" fuels to our power needs without producing any wasteful side reactions. You should be prepared to set up your own organization to perform laboratory

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research in this field, if you find a truly promising man with a promising lead. However, for such a venture you should bring in additional capital from outside, rather than risk the entire fund on one speculation.

As I mentioned, the sun will certainly become our major power source. Each day the sun supplies the earth with more energy than man has used since he appeared on earth. The technological problems involved in converting sunlight to electricity should be simple once the necessary fundamental knowledge has been gained. And distribution costs will often be extremely low, for most domestic users will be able to generate their power needs on the roofs of their homes.

Devices for converting sunlight to electric power may be similar to the silicon cells recently developed by Bell Telephone Laboratories. Or they may be thin membranes of complex organic molecules, unlike anything in nature, but carefully "tailored" for this particular function.

An essential adjunct to solar power is the storage battery. Present batteries store very little energy per pound compared to what is stored in a pound of oxygen-gasoline mixture. Therefore, be on the lookout for radically new ways to store electrical en-

ergy. Also the fuel battery will come. This is a device that burns liquid fuel, using oxygen from the air, to produce electricity directly. It will be employed principally for powering automobiles and helicopters.

Another group of investment opportunities will be connected with water shortages. Water is one of the very few industrial materials for which there is no satisfactory substitute. We can, therefore, expect increasing concentration of industry around the Great Lakes, along major rivers, and by the sea, with water rather than transportation as the main lure.

WATCH also for new methods both of water purification and water conservation. One method for purifying sea water and brackish inland waters will employ electricity from solar batteries to remove dissolved substances by electromigration. But eventually, the solar cells and the purification system will be combined in a single membrane of complex organic molecules, as efficient as a membrane of living cells. I foresee pools of salt water covered by thin membranes exposed to the sun. Compounds within the membrane will absorb light energy and apply it to transporting pure water through to the upper surface.

There is no question in my mind that by 1980 construction will be our major industry. As America becomes ever richer, desires for food and clothing will be more fully met, so that people will inevitably take advantage of the opportunity to have spacious, luxurious housing. Furthermore, automobiles will largely give way to battery powered helicopters, with automatic radar controls to make them as safe as railroad travel now is. These will permit the break-up of cities into vast suburban-type areas.

By 1980 or 1990 houses will very likely be constructed largely of a vitreous foam. I foresee furnaces borne on trucks that will melt a mixture of sand, alkaline rocks and limestone, obtained locally where possible. The molten glass thus created will be mixed with air and blown out through hoses to produce foundations, exterior walls and roofs of large ranch-type houses. Walls a foot thick will be quickly and cheaply built up in any shape desired. They will be sturdy, fireproof and give superb heat and sound insulation. Outer surfaces will be smooth and hard, made from solid glass unmixed with air and colored by pigments added to the melt.

FOR SOME years after I am gone housing will remain "the industry

that capitalism forgot." But around 1975, barriers of inertia, local ordinances and restrictive union rules will collapse under the pressure of the new construction methods. As soon as these methods have been employed in a few parts of the country, there will be irresistible demand from other regions. So during the 1960's you should be searching for the progressive and aggressive firms that will be fighting to develop the new construction industry.

I have outlined what will probably be the major trends in industrial development during the remainder of the century. You

should make investments with full confidence in the future of American industry. Unless World War III occurs, there will be continued progress at an ever accelerating rate. Do not be frightened by mild recessions. I am certain that there cannot be another prolonged and severe depression. By following my recommendations, you should be able to increase my bequest to more than fifty million dollars by 2000 A. D., and thereby enable Bentley College to become one of the leading universities in this part of the country.

Respectfully yours,

R. C. RYDER

Author's Note: I imagine that the president and regents of non-existent Bentley College viewed these prophecies as extravagantly visionary, but my own impression is that the fictional Mr. Ryder was far too conservative. History shows that prophecies are almost always considered far-fetched by contemporay observers, and then are proved by posterity to have been overconservative.

For example, the three major prophetic novels of the early 1930s—H. G. Wells' *The Shape of Things to Come*, Aldous Huxley's *Brave New World* and Olaf Stapledon's *Last and First Men*—have already been outmoded in several respects. Thus the first two do not mention atomic power at all, and in the third it does not appear until about 2100 A.D.—G.R.P.



Answers to True-False Quiz

- | | |
|-------------------------|--------------------------|
| (1) False (see page 16) | (7) True (see page 56) |
| (2) False (see page 60) | (8) True (see page 47) |
| (3) True (see page 12) | (9) False (see page 6) |
| (4) False (see page 29) | (10) False (see page 21) |
| (5) True (see page 24) | (11) True (see page 52) |
| (6) False (see page 34) | (12) False (see page 42) |



Gloom and Doom (c. 1800)

Still the subject of contradictory judgments, Thomas R. Malthus is dubbed by history as the first of England's pessimistic economists

WHEN Parson Malthus' *Essay on Population* was first published in 1798, it provoked a storm of controversy which has persisted to the present day. Rarely has the work of an academic economist been as widely debated by noneconomists as this first (and, in the opinion of many experts, least satisfactory) of Malthus' works. On the basis of this work, which was thoroughly revised in 1803, Malthus has been called at different times and by different people a monster, a profound thinker, a fool and humanity's benefactor.

In order to understand fully Malthus' theory of population, it is necessary to know something about the man and the times in

which he wrote. Born in 1766, Thomas R. Malthus lived through a period of tremendous industrial change. The twenty-two years separating Smith's *The Wealth of Nations* from Malthus' *Essay on Population* saw the extension of technology into England's major industries and the emergence of a system of factory production. The transition was not painless, however, for the consequent rush to the cities created surplus labor on the one hand, and, on the other, sharply increased the price of grains and other foods—problems which were aggravated by the French Revolution and the Napoleonic wars which shook all of Europe for twenty-five years.

It is against this background

of economic dislocation and social unrest that Malthus, the first of the group of pessimists who followed Adam Smith, wrote his *Essay*. Every success in improving man's condition, he prophesied, would be wiped out by a disproportionate growth of population. Assuming (1) that food is necessary to man and (2) that "the passion between the sexes is necessary and will remain nearly in its present state," Malthus concluded that "the power of population is indefinitely greater than the power of the earth to produce subsistence for man." He expressed this in his famous formula that population, when unchecked, increases geometrically (1, 2, 4, 8, 16, 32, etc.) while the means of subsistence can only increase at an arithmetical rate (1, 2, 3, 4, etc.). Actually, as he admitted, there are few nations where population growth is completely unchecked or where land is used as efficiently as it might be. Therefore, there was no proof that Malthus' precise rates of increase would, in fact, occur. But any questions about the correctness of Malthus' "formula" could not disprove the validity of his fundamental proposition: population always *tends* to surpass the available means of subsistence.

This is the ninth article of a series in CHALLENGE dealing with the economic development of Man.

In order to keep population from increasing naturally, the "strong law of necessity" intervenes. Misery (famine, poverty, wars, etc.) and vice ("all promiscuous intercourse to such a degree as to prevent the birth of children") keep population from increasing naturally. Misery and vice, therefore, will always be with us since they alone can keep population in check. Gone is the bright optimism of Adam Smith. Man, Malthus is in fact saying, can expect no permanent improvement in his condition.

As a result of the outraged criticism which followed the publication of his book, Malthus revised and modified the *Essay* five years later. He found one faint glimmer of hope. In addition to vice and misery, population might be checked by the exercise of moral restraint. This third check to population growth is peculiar to man and arises out of his unique ability to calculate the consequences of his acts. By abstaining from marriage until he is able to support a family, it is just possible that man can check the natural rate of population growth without recourse to either misery or vice. Malthus most emphatically excluded birth control methods such as the "Neo-Malthusians" were to advocate on the basis of his concept of moral restraint. For Malthus clearly

defined moral restraint as "abstinence from marriage not followed by irregular gratification." Anything else was vice.

WHILE Malthus himself did not have too much confidence in the general effectiveness of moral restraint, the second edition of his *Essay* at least does not shut the door altogether on the possibility of social improvement. The poor must be persuaded not to rush into marriage without due regard for the future. The state can help in this by abolishing the Poor Laws, which only tend to aggravate the problem by encouraging the belief that no matter how many children the poor may have, the state will take care of them. The poor have no natural right to support. "A man who is born into a world already possessed," he wrote in a famous passage, "if he cannot get subsistence from his parents on whom he has a just demand, and if the society do not want his labour, has no claim of *right* to the smallest portion of food, and, in fact, has no business to be where he is. At nature's mighty feast there is no vacant cover for him. She tells him to be gone." Harsh though this language is, it would be unfair to accuse Malthus of callousness toward human misery. From his point of view, such misery could be wiped out

only by compelling the poor to recognize the natural consequences of improvident marriages. His population theory, moreover, gave rise to an entirely new science, demography (or the study of population trends).

MALTHUS' other contributions to economics have been somewhat obscured by the dramatic nature of his population theory. This is unfortunate, because Malthus had important comments to make on other subjects.

For example, he departs from the classical view of the economy as a self-regulating machine. As we saw last month, the French economist, Say, had declared that general overproduction was impossible. Ricardo, Malthus' contemporary whom we shall discuss next month, went even further and maintained that an overaccumulation of capital was impossible.

Malthus, on the other hand, attempted to show that capital accumulation could (and sometimes did) go too far. For, says Malthus, production depends upon effective demand, i.e. demand which enables the producer to cover the cost of labor and equipment plus a profit. Now, the productive laborer (whom he defines as one who produces material goods which gratify the wants of man) can never have the demand

to buy back the equivalent value of the goods he produces since his demand does not cover the extent of what he produces. If it did, there would be no profit. But the capitalist cannot supply this demand either, for such consumption "is not consistent with the actual habits of the generality of capitalists." In Malthus' words, "the master producers and capitalists, though they may have the power, have not the will . . . their workmen, if they possessed the will, have not the power." If production depends on the demand of producers only to keep it going, more goods are going to be produced than the economy is willing or able to consume. Malthus finds the solution in a class of unproductive consumers (that is, individuals who consume more material value than they produce) such as servants, landlords, statesmen, etc., whose consumption really keeps the economy going.

WHAT Malthus was actually doing was trying to reconcile the old agricultural with the new industrial order. Landlords were then under attack from those, among them Ricardo, who felt that high grain duties meant high rents for the landlords, but dear bread and low profits for pro-

ducers, and less accumulation of capital. Malthus, on the other hand, maintained that this may very well prove a good thing since there were serious dangers inherent in an overaccumulation of capital. By spending rather than saving their money, landlords were, in fact, performing a useful social function.

What Malthus apparently did not realize was that his theory of overproduction was in rather sharp conflict with his population theory. On the one hand he is speaking of an overabundance of goods in relation to buyers; on the other hand he is speaking of an overabundance of people in relation to means of subsistence. Since Malthus approved of the social system then prevailing in England, he cannot like other economists (Ricardo or Marx, for example) blame it on various aspects of the existing system of distribution. The paradox is, therefore, never resolved.

Be that as it may, a world in which population tended to outstrip the means of subsistence, and where production was not always able to secure a market, was not a happy one in which to live. In Malthus' hands economics became identified as the "dismal" science. He was history's first "prophet of gloom and doom." ■

NEXT MONTH: David Ricardo, perhaps the greatest of the Classical economists, rounds out the Pessimists' gloomy view of the future.

When "key" companies and unions bargain collectively, they set an industry-wide pattern

Bargaining, Industry-wide

by Robert E. Sibson

THE RISE of big unionism has created a major economic and political issue in the United States. This is not due to size alone; instead, the controversy centers largely around the *nature* of trade union growth.

The rapid increase in union membership which has occurred since 1935 has been concentrated for the most part, and perhaps unavoidably, in a relatively few large labor organizations. For example, there are today seven national unions in key industries which boast memberships in excess of 500,000 each. But more significant is the fact that the development of these major unions has been accompanied by a gradual transfer of authority from the locals to the officers of the national organization.

The result has been a strong concentration of power in the hands of a few labor leaders whose actions can have far-reaching effects on the national econ-

omy. Consequently, the question has often been raised whether their use of this power to obtain such legitimate objectives as wage increases and employment stabilization has been consistent with the public interest.

For a new pattern of collective bargaining has emerged along with the growth of big unionism. The old style of negotiation between an individual employer and representatives of his employees has been largely supplanted by *industry-wide bargaining* in which the employees of all or most of the individual firms within an industry—such as steel, automobiles, rubber and transportation—are represented by giant national unions. The original scope of collective bargaining, moreover, has been widened to include nearly every phase of the employer-employee relationship.

The existence of a strong industrial union often gives labor's representatives a distinct bar-



gaining advantage over any single company within the industry. For example, the members of the national union may give active support to striking members of one firm, but the employer is not likely to receive similar support from his competitors. By pressing their demands on one key employer, national unions are frequently able to obtain substantial gains which they then try to impose on the rest of the industry, one company at a time.

This type of industry-wide bargaining has been accompanied by *pattern-bargaining*, a development made possible by the effect of settlements in key industries on workers and employers in other industries. This has compelled the nation's union leaders to seek contracts comparable to agreements won by other labor leaders—a matter of maintaining prestige—even though one industry may be characterized by an entirely different complex of economic factors from another. Thus, one of the most significant effects of industry-wide bargaining has been the modification of the supply and demand relationships that once determined wages and hours in agreements made by a small group of men. In this way, conditions of employment have been, and are being, deter-

mined *administratively* for an increasingly wider segment of industry.

Let us examine some of the consequences of this new pattern of contract negotiation. First, it seems clear that industry-wide contracts, when applied indiscriminately to companies which operate under widely varying conditions, must work to the detriment of some employees and employers. Second, the pressure tactics of large national unions have sometimes led employers to join forces to meet the collective bargaining threat head on. In some instances, the cooperation merely involves the exchange of information; in other cases—as in the coal and rubber industries—it has resulted in the formation of employer associations. Some employers, however, are reluctant to make such arrangements, since they believe that it is basically unwise to combine with competitors in any form. Needless to say, this adherence to principle leaves such firms in a more vulnerable position.

Another effect of the administrative determination of conditions of employment is a trend toward uniform wage costs within an industry. This has made it more difficult for small businesses to compete effectively price-wise, since the economics associated with large-scale operations

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often give larger companies a cost advantage where wage increases are identical. To the degree that pattern and industry-wide bargaining tend to equalize wages, concentration in industry is increased. This works to the detriment of small business, and as a result, effective competition may be reduced.

Even more important to competition is the fact that as costs are determined more by administrative measures and less by the free interplay of market conditions, they become rigid. As this happens, companies lose flexibility in establishing and adjusting prices and are, thereby, limited in their ability to compete.

A concrete example of how the new pattern of collective bargaining brought about by big unionism tends to make the economy more rigid is provided by the recent negotiations over the guaranteed annual wage. It is questionable whether any of the major auto producers would have gone along with GAW if each did not act in the knowledge that its competitors would have to follow suit.

It seems as if we have already gone a long way toward a unified wage bargaining system covering all industries. Nevertheless, union leaders may not be content to stop here. The CIO, in its 1951 convention, stated that it aimed at "equal authority" regarding such matters as prices, production levels, capital investments, technological changes and plant locations. It proposed to accomplish this through "industry councils" composed of union, management and government representatives.

Will the unions obtain sufficient strength to reach this objective? The national labor law, though much abused by union leaders, still protects—and rightly so—the legitimate right of workers to organize. And the big labor organizations have the resources to get even bigger. However, as they grow more powerful and amalgamate into larger units, extending their influence over the economy, it becomes increasingly important to re-examine their position and decide whether any limitations on labor strength are desired in the public interest. ■

Not-so-Foreign Trade

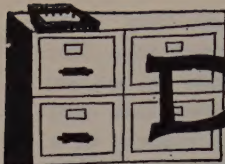
DESPITE our varied commercial operations throughout the entire world, the principal region for the foreign trade of the United States is the Western Hemisphere. This relatively local area accounts, according to a recent statistical report, for more than 40 per cent of our exports and 55 per cent of our imports. Roughly half of these transactions are in trade with Canada and Mexico.



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 55.

- | | |
|---|--|
| <p>(1) Within the last 50 years, Italy, Venezuela and Brazil have altered their land tenure systems.
True ☐ False ☐</p> <p>(2) Only 3 national unions in the U. S. have memberships over 500,000 each.
True ☐ False ☐</p> <p>(3) New England's employment increase of 37.4 per cent from 1939 to 1953 was much lower than the national rise.
True ☐ False ☐</p> <p>(4) To avoid competition among division heads, large firms often establish each division as a semi-independent unit.
True ☐ False ☐</p> <p>(5) This year's gain in consumer spending is about equal to one-half of our total defense program.
True ☐ False ☐</p> <p>(6) Our consumption of durable goods reflects the greater part of our rising living standard.
True ☐ False ☐</p> | <p>(7) Rapid population growth can be checked if the poor do not rush into marriage, said Thomas Malthus.
True ☐ False ☐</p> <p>(8) A textile firm producing electronic tools illustrates the concept of diversification.
True ☐ False ☐</p> <p>(9) Most business leaders have a clear-cut definition of policy regarding the government's role in the economy.
True ☐ False ☐</p> <p>(10) Retail markups have increased sharply within the last 20 years.
True ☐ False ☐</p> <p>(11) Water will be the most important raw material within fifty years, according to scientific opinion.
True ☐ False ☐</p> <p>(12) Leisure time, like salary, is a reward for individual economic effectiveness.
True ☐ False ☐</p> |
|---|--|



Dept. of Better Mousetraps



From the World of Industry: for speech-making executives, a portable electronic prompter with an illuminated viewer across which the speech script runs . . . an inexpensive window paint that blocks an outsider's view, yet permits 80 per cent of the light to get through . . . a calendar device which gives the day of the week for any date from 1800 to 2199 A.D. . . . a new IBM typewriter unit that types phrases as well as letters when the keys are punched . . . a mood meter which measures a person's degree of happiness and charts the course of emotional changes . . . a vending machine which offers oxygen (two minutes of whiffing for 25 cents) to counteract the effects of overindulgence. . . and jackets for sheep to protect their wool from wind, rain and dust.

* * *

Kitchen Kuties: pots and pans which are processed to eliminate discoloring and corroding and to prevent food from sticking to the metal . . . disposable broiler trays of aluminum foil . . . and a compound of vitamin C and sugar added to fruit salads to prevent browning.

* * *

Fabric Fantasy: a process which keeps garments lint-free, odorless and germ-resistant for over six months . . . and Flec-

ton, a new yarn with thousands of tiny glass lenses embodied in it, which looks normal in daylight but at night reflects auto headlights up to distances of 1,600 feet.

* * *

Junior Department: Zit-Zingo, a game to keep traveling tots from getting bored. Something like bingo, the idea is to watch for objects along the road and cross them off on cards . . . and a microphone for toy electric trains which translates such words as "Stop" and "Start" into electronic commands which the trains obey . . . a nursery rug that glows in the dark for night-shy children.

* * *

Around the House: an actively antiseptic toothbrush that will repel, destroy or inhibit most bacteria for four months . . . and to take care of the rest of the house, the Sun-Lite Aire Purifier, installed in a home's heating system, kills 90 per cent of airborne bacteria.

* * *

Canine Capers: an electrically powered pet feeder which mixes food, dispenses dinner and whistles for the pet . . . to please the owner more than the dog, nutritious dog biscuits in six shapes and colors, including a red "heart," a yellow "egg," a green "fish," and an orange "cheese." ■

